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**HR-performance linkages through the lens of social exchange**

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# **HR-PERFORMANCE LINKAGES THROUGH THE LENS OF SOCIAL EXCHANGE**

**Patchara Popaitoon**

A thesis submitted to the degree of Doctor of Philosophy

University of Bath

School of Management

June 2011

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## **List of Abbreviations**

### Abbreviation

A	=	HR practices in ability domain
A'	=	Breach of HR practices in ability domain
A~	=	Organizational obligation in ability domain
M	=	HR practices in motivation domain
M'	=	Breach of HR practices in motivation domain
M~	=	Organizational obligation in motivation domain
O	=	HR practices in opportunity to participate domain
O'	=	Breach of HR practices in opportunity to participate domain
O~	=	Organizational obligation in opportunity to participate domain
HRM	=	Human resources management
SHRM	=	Strategic human resources management
AMO	=	Ability, motivation and opportunity to participate
POS	=	Perceived organizational support
LMX	=	Leader-member exchange
AOC	=	Affective organizational commitment
OCB	=	Organizational citizenship behaviour
RMSEA	=	Root mean square error of estimate
CFI	=	Comparative fit index
IFI	=	Incremental fit index

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## **Abstract**

This research explores the linkages between HR practices and business sales performance in a retail bank branch network. Whilst previous research in the last two decades has generally supported the notion that when appropriately designed HR practices can help enhance organizational outcomes, there is still ongoing debate regarding how such practices can actually influence business results. In particular, academics have highlighted the importance of the quality of HR implementation, because this can affect employee day-to-day experiences of and reactions to the HR practices which can impact on variance in the business results. In effect, it is crucial for research to take up the employee lens of the implemented practices and their reactions to these, if the HR-performance relationship is to be clearly understood.

This thesis contributes to this research agenda by adopting the social exchange lens to shed light on the nature of the aforementioned relationship. A multidisciplinary and multilevel HR-performance model was employed for conducting empirical tests. Specifically, the empirical model was constructed from the literature in three different fields: strategic human resources management, social exchange theory and psychological contract, with the aim of eliciting the nature of employer-employee exchange relationships in the HR process. Subsequently, the model was tested using the data obtained from 1,286 employees in 149 bank branches and analysed so as to assess the multilevel process through which HR practices can influence business sales performance.

The empirical results indicate that an organization can improve branch sales performance by paying careful attention to several processes pertaining to the implementation of HR practices. That is, through the psychological contract process, employees, based on their perceptions of the quality of the received practices (i.e. HR level and breach), reciprocate the organization

with their discretionary performance, i.e. commitment attitudes and organizational citizenship behaviours and these outcomes have an impact on business results. Moreover, the findings also point to a boundary condition, whereby the HR-performance relationship can be enhanced by stressing the role of the key constituencies responsible for delivering these practices, namely: senior management and the line manager. That is, respectively, through the affective and relational processes, these agents can have an impact on employee perceptions of HR level and whether there has been a breach of the psychological contract, which in turn influence employee reactions in the causal chain.

In summary, having applied the social exchange perspective to elicit the employee interaction with the different quality of HR implementation across bank branches, this study has contributed to the literature by identifying the key processes including psychological contract, relational and affective processes through which HR practices can impact on business sales performance, thereby illustrating how an organization's human resources can serve as the source of sustained business competitive advantage.

# **Chapter 1**

## **Introduction**

This chapter introduces the research background and structure of the thesis. First, the research motivation is provided in which the rationale for undertaking a multidisciplinary and multilevel approach in this research endeavour, is explained (section 1.1). Next, the research objectives and conceptual framework are presented as well as the contributions to knowledge made by this study are briefly outlined (section 1.2). Last, the structure of the thesis is presented (section 1.3).

### **1.1 Research Motivation**

Interest in people as a source of competitive advantage has captured the attention of academics and practitioners alike in the past two decades. This has come about, in particular, as a result of the changing requirements of product markets, wherein a skilled and motivated workforce is imperative for firms to be able to compete in the global economy (Pfeffer, 1994). In this regard, the author pointed out that many of the traditional resources of competitive advantage, such as patents, economies of scale and access to capital have become less important in the current economic environment than they once were. Rather, the capability and discretionary performance of the organization's human resources are more influential, because, according to the resource-based view of the firm (RBV) (Barney, 1991), these potential strategic internal resources are unlikely to be imitable and substitutable across firms and hence, can be the sources of the sustained business competitive advantage (Wright, McMahan, & McWilliams, 1994). This theoretical context has provided a backdrop for examining the implications of human resources for firm performance, which has led to a

marked expansion in research into the field of strategic human resources management (Wright, Dunford, & Snell, 2001).

Wright and McMahan (1992: 298) defined strategic human resource management (SHRM) as 'the planned HR deployments and activities intended to enable an organization to achieve its goals'. They further highlighted the unique quality of SHRM that distinguishes it from traditional human resource management in that vertically, SHRM entails the linking of HR practices with strategic management process of the organization and horizontally, it emphasizes the coordination or congruence among the various HR practices through a pattern of planned action. In terms of research practice, researchers adopting this perspective are increasingly focusing on the role of a set of HR practices or HR systems rather than an individual practice and are more interested in the organizational than individual performance (Becker & Huselid, 2006). That is, the practices used to manage human resources are assumed to be a potential source of sustained competitive advantage (Becker & Gerhart, 1996). As a result, previous SHRM research in the last two decades has placed a strong emphasis on seeking for the set of HR best fit or HR best practices that can differentiate firm performance (Becker & Huselid, 2006; Boselie, Dietz, & Boon, 2005; Boxall & Purcell, 2008; Wright & Boswell, 2002).

Consistent with SHRM theory, several meta-analytical reviews of HR practices and business performance or HR-performance relationship have consistently revealed that a bundle set of high performance practices, under certain conditions, has a positive effect on business results (Boselie, et al., 2005; Combs, Yongmei, Hall, & Ketchen, 2006; Wall & Wood, 2005; Wright & Boswell, 2002). Nevertheless, whilst these findings would appear to suggest that an organization can benefit from having these high performance practices, Hesketh and Fleetwood (2006) commented that such a statistical empirical association does not proffer an explanation for why this is the case. Moreover, Guest's (2011) recent review of HR-performance research has revealed that little progress has been made, to

date, in improving understanding of how HR practices can actually influence business performance, which is generally known as the 'HR black box' problem in HR-performance research (Boselie, et al., 2005; Boxall & Purcell, 2008; Wright & Boswell, 2002; Wright & Gardner, 2003).

Gratton and Truss (2003) asserted that this is owing to the fact that SHRM scholars tend to focus merely on the vertical and horizontal fit, whereas the implementation dimension or how people strategy is enacted to engender the desired outcomes have been received scant attention. This results in a lack of knowledge regarding the process through which HR practices are impacting on the business performance and whether or not the organization is delivering in the area of people management. They further argued that in order for the organization to realize that its people are the source of sustained competitive advantage (Wright, et al., 1994), the strategic alignment of people policies must be put effectively into action through the day-to-day experiences of the employees. This is because it is at this stage of the HR experiences and not the intended practices that guides employee reactions, which in turn account for variations in unit performance (Nishii & Wright, 2008; Wright & Nishii, 2004). Becker and Huselid (2006) argued that the different quality in the implementation can perhaps explain why the same set of HR best practices provides different effects across organizations.

In light of this, calls for adopting employee lens in the HR-performance research have become more prominent in the HR black box literature (Boselie, et al., 2005; Boxall & Purcell, 2008; Wall & Wood, 2005; Wright & Boswell, 2002; Wright & Gardner, 2003). Moreover, it is now well accepted that employees are on the receiving end of HR practices and that it is the employees who deliver business results and therefore, these authors have further suggested that HR black box research should integrate the mediating role of employee outcomes in the HR-performance process. This is because favourable employee experiences of HR practices could engender in them the discretion to further the goals of the organization (Ostroff & Bowen, 2000; Purcell & Kinnie, 2007). In other words, the focus of future



SHRM research should shift from simply seeking for the presence of HR practices (Boselie, et al., 2005) to how well these practices are applied to the employees (Guest, 2011). Therefore, the employee experiences with and reactions to the implemented practices should be included if a more accurate illustration of how HR practices can actually influence business performance is to be elicited.

The key issue here is what construes employee experiences in the context of HR implementation. Nishii and Wright (2008) have asserted that employee experiences with HR practices are complicated, because HR implementation is a long term process and an employee can associate the received practices with several events throughout the course of the implementation (Gratton, Hope-Hailey, Stiles, & Truss, 1999; Truss, 2001). Nishii and Wright (2008) have further argued that previous research in SHRM has failed to capture the complexity of these experiences and perhaps this is the cause of there being inconsistent findings regarding the magnitude of HRM effectiveness at the firm level (Becker & Huselid, 2006). Moreover, different literature has used different criteria for investigating employee experiences in the HR process, which can also explain this inconsistency in the outcomes. For instance, in HR-performance research employee experiences have been generally referred to as their perceptions of the availability of the practices in question (e.g. number of practices and intensity level) (Boselie et al., 2005). Whereas in psychological contract literature, employee experiences with HR practices have often been referred to as their perceived organizational promises on HR practices and the extent to which the received practices have met their psychological contract terms (Conway & Briner, 2005; Rousseau, 1995).

In another stream of research into the effectiveness of the SHRM implementation process, employee experiences with HR practices have been studied in association with the quality of the organizational agents, particularly the role of senior management and line manager (Boxall & Purcell, 2008; Coyle-Shapiro & Shore, 2007; Purcell & Hutchinson, 2007; Wright & Nishii, 2004). These researchers explained that these agents are

responsible for deciding on the intended HR systems and enacting these practices in local management, respectively and hence, through these different roles in the HR implementation process they share responsibility for employees' experiences in the HR process. In this context, some empirical studies have explored the specific quality of supervisor (e.g. communication skills, interpersonal relationships, performance appraisal skills) and its impact on employee perceptions of and responses to the employment practices in the HR implementation process (Bartel, 2004; Gratton, et al., 1999; McGovern, Gratton, Hope-Hailey, Stiles, & Truss, 1997; Purcell & Hutchinson, 2007; Purcell, Kinnie, Hutchinson, Rayton, & Swart, 2003; Truss, 2001). This is because line managers are mainly responsible for delivering these practices locally and their discretion in the implementation can influence employee perceptions of the received practices. As for the influence of senior management on employee HR experiences, Nishii, et al. (2008) explored employee attribution on why management chose to deploy particular HR practices and subsequently tested its associations with their attitudes and behaviours, and ultimately, unit performance. In other words, they used perceived reasons pertaining to management actions to investigate the employee experiences in the HR process.

Drawing from the above perspectives, it would appear that employee experiences during HR implementation include perceived quality of the content being received, i.e. availability and perceived breach of HR practices, on the one hand and views on the quality of its delivery, i.e. the quality of the line manager and senior management in the implementation process, on the other. It is possible that these different criteria for examining employee experiences in the HR-performance causal chain can work simultaneously and should be investigated in an integrated way to elicit their collective influences on employee reactions. Of particular note in relation to this, none of the extant literature on HR-performance research has referred directly to the quality of these agents in respect of its implications for the employee psychological contract, something that could also provide an explanation for the variation in HR-performance relations

(Wright & Gardner, 2003; Boxall & Purcell, 2008; Wright & Nishii, 2004; Nishii & Wright, 2008). Nishii and Wright (2008) further explained that the way in which these organizational agents deliver HR practices can influence employee understanding of the employment practices, because it can serve as a signalling function that stimulates psychological meanings regarding their work situation and hence their responses (Rousseau, 1995). That is, if employees perceive this in a positive fashion then it generates an organizational obligation in them to perform well, whereas if their view is unfavourable the converse occurs (Conway & Briner, 2005). In other words, the strength and direction of the relationships between the received practices and employee reactions are influenced by psychological contract considerations (Nishii & Wright, 2008).

This research endeavour is aimed at capturing the complexity of employee experiences in the HR implementation process, by incorporating all these foci of employee experiences into a single study so as to observe the interrelationships of perceived quality of HR content and its delivery with the employee reactions in the HR-performance relationship. With respect to this, some HR scholars have recommended that HR black box researchers should adopt a multidisciplinary HR-performance research approach (Wright & Boswell, 2002; Wright & Gardner, 2003; Wright & Nishii, 2004; Nishii & Wright, 2008; Purcell & Kinnie, 2007; Boxall & Purcell, 2008), in which the micro theories of the psychological contract (Rousseau, 1989, 1995) and social exchange (Blau, 1964, 1968) are integrated with the macro concept of RBV (Barney, 1991). This is because these micro theories can better capture the employee's psychological meaning of the received practices and hence, their attitudinal and behavioural reactions regarding their support for organizational achievement, than were it otherwise. Moreover, in this regard, in order to bridge this micro-macro divide methodologically, a multilevel analysis covering both individual and organizational performance has been advised (Molloy, Ployhart, & Wright, 2011; Ostroff & Bowen, 2000; Wright & Boswell, 2002; Wright & Gardner, 2003). By doing so, the mechanisms or the processes through which HR practices can have an impact on the business results can be unveiled and

hence, a stronger assertion of employees being the source of business competitive advantage could be revealed.

## 1.2 Research Objectives, Framework and Contribution

This researcher has taken on board the above contentions and developed a multidisciplinary and multilevel research framework for this study by which it integrates psychological contract and social exchange theory into the investigation of HR-performance relationship. In addition, this study has adopted the employee perspective to inform their experiences with and reactions to HR practices so that the multilevel linkages in the HR-performance relationship can be observed more clearly. More specifically, the two main objectives of this research are: 1) to identify the underlying processes through which HR practices influence business results; and 2) to explain the variance in the HR-performance relationship across business units.

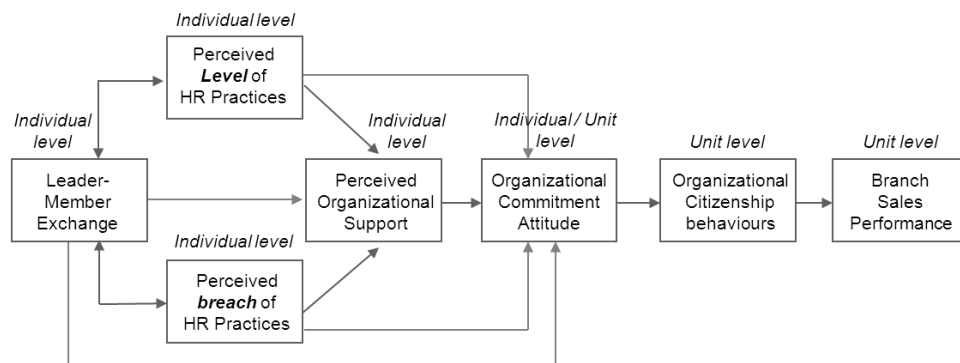


Figure 1-1 Multidisciplinary and Multilevel HR-Performance Research Framework

With regards to the above framework, this study used social exchange theory as the theoretical foundation from which three key elements are drawn to analyse employee interactions in the HR-performance relationships: the exchange content, exchange parties and exchange outcomes. In figure 1-1, the perceived level and breach of HR practices, taken together, are conceptualized as the *quality* of the organizational

exchange content, which has been argued to be associated with employee outcomes through the psychological contract process (Nishii & Wright, 2008).

Next, perceived organizational support (POS) and leader-member exchange (LMX), which are the constructs rooted in social exchange theory, are conceptualized as representing the quality of the organizational agents partying to the employees in the HR delivery. More specifically, POS reflects the level of senior management's commitment to provide HR practices that address employees' care and support, which in turn engenders in the strength of their affective response by furthering the goals of the organization (Eisenberger, Huntington, Hutchison, & Sowa, 1986). Accordingly, employee responses to the received practices through their exchange relationship with senior management are considered in this research to be driven by the affective process.

In addition, it is posited that LMX, which is a relationship-based approach to leadership (Graen & Uhl-Bien, 1995), influences employee experiences through the relational process. That is, the quality of the relationship between the line manager and staff, or the LMX, can influence the former's decisions on resource allocation among the employees and hence, in turn, the latter's perceptions of and reactions to the HR practices.

Turning to the employee side of the exchange, affective organizational commitment (AOC) (Meyer & Allen, 1991) and organizational citizenship behaviours (OCB) (Organ, 1988) are conceptualized as the employee contribution or the exchange content being delivered to the organization from the employee. Purcell and Kinnie (2007) explained that it is the employee behaviours that have a direct impact on organizational results and the strength of this is driven by employee affective attitudes. Therefore, employee outcomes are identified as a two-staged modelling of sequential effect of employee commitment and subsequently citizenship behaviours (Ostroff & Bowen, 2000). Finally, business sales performance is conceptualized as the result of the exchange relationship between the

employer and the employee. The rationales for the hypothesized linkages identified in the model and research questions are presented in chapter 2.

By adopting this research framework, this researcher has responded to extant relevant literature, in which it is argued that in order to uncover the HR black box between HR practices and business performance, a multidisciplinary framework is needed to capture the variation in HR implementation and its impact on employee experiences of HR practices (Becker & Gerhart, 1996; Becker & Huselid, 2006; Boselie, et al., 2005; Boxall & Purcell, 2008; Guest, 2011; Wright & Boswell, 2002; Wright & Gardner, 2003). As well as accepting this challenge, in this research, a multilevel framework is designed to investigate empirically the individual and organizational performance relationship, especially the causal sequential effect of employee attitudinal and behavioural outcomes on the latter (Ostroff & Bowen, 2000; Purcell & Kinnie, 2007).

Furthermore, some key research design issues that have been discussed in the extant literature and ways put forward to improve the robustness of HR-performance research are applied, so as to enhance the credibility of the results (Boselie, et al., 2005; Gerhart, 2007b; Gerhart, Wright, McMahan, & Snell, 2000; Wright & Gardner, 2003). With regards to this, the specific research design includes: 1) taking the employee as the key informant of HR practices; 2) having a narrow focus on the implications of HR practices by selecting a homogenous and core job group, i.e. customer service representatives, to participate in this research (Lepak & Snell, 1999); and 3) following Gerhart's (2007b) advice in studying HR-performance relations in the environment of a single company with multi-site locations nature, i.e. bank branches, so as to minimize externalities. Finally, the selection of Thailand as the research site contributes new insights into the existing theories, in particular, because of it being a non-Western country. Further consideration regarding the research contributions is provided in chapter 2.

### **1.3 Structure of the Thesis**

The thesis has been organized into seven chapters. After this brief introduction, in chapter 2 the relevant existing literature that covers the theoretical principles of the three key literature domains: strategic human resource management, psychological contract and social exchange theory is discussed and how these are conceptually integrated to form the multidisciplinary and multilevel research framework presented in figure 1-1 is explained and justified. Subsequently, the research framework that integrates these three domains of the literature as well as the key research questions and the research contributions are presented.

Chapter 3 contains the methodology, in which the research design, research methods along with the analytical strategy being employed for this research are explained and justified. To begin with, the ontological and epistemological stance adopted is set out. Then, key methodological decisions are described including the choice of survey research, use of the multi-site locations environment of bank branches, narrow focus on respondents from one particular job group and strategic decision regarding Thailand as the research site. Operational measures for particular concepts discussed in the literature review are explained as well as the procedures for data collection and the analytical strategy.

Chapters 4 and 5 are empirical chapters in that chapter 4 identifies the HR-performance relationship at the individual level by testing the influence of exchange content and exchange parties on the variance in employee commitment attitudes, whilst chapter 5 extends the empirical research from chapter 4 by aggregating employee commitment to the branch level of analysis, so as to examine its impact on group OCB and branch sales performance. The results obtained from chapter 4 are used primarily to explain the HR variability owing to the quality of HR implementation, whereas those obtained from chapter 5 are mainly responding to the identification of the process through which HR outcomes influence business results. The literature review related to the specific constructs associated

with each of these chapters is explored in detail and the rationales underlying the hypothesized linkages are justified in the hypotheses development section of the relevant chapter. Further, the analytical techniques used for hypotheses testing are explained, the results are discussed and research implications and the key contributions to knowledge specific to the inquiry carried out in each chapter, are identified.

Chapter 6 contains discussion that involves synthesizing the results from chapters 4 and 5 to evaluate the effectiveness of the multidisciplinary and multilevel approach adopted in this research. Moreover, implications from this thesis for theoretical development and management practice regarding HR-performance relationships are examined, as well as a consideration of the research limitations and suggestions for potential future avenues of investigation are explored.

In the final chapter, chapter 7, conclusions to the analysis of the proposed multidisciplinary and multilevel research framework are presented. In addition, the key contribution from incorporating the social exchange perspective into the HR-performance research and its implications for the wider context of strategic human resource management literature are explicated.



## **Chapter 2**

### **Literature Review**

In this research the lens of social exchange is adopted to explain the linkages between HR practices and business performance. With regard to this, the study takes the stakeholder approach into the investigation, wherein both the employer and the employee perspectives are included to elicit their exchange relationships in the HR-performance process. Regarding the employer, this investigation, as with previous research, takes firm economic objectives to inform the effectiveness of HR high performance practices, whereas for the employee, the focus is on employee experiences of and reaction to these practices to elicit the level of HR effectiveness. More specifically, for the latter, the focus here is to observe the quality of HR implementation and its influence on variance in employees' perceptions of the practices and hence, their reactions. In doing so, this research integrates the social exchange theory and some other concepts rooted in this theory with this main investigation, which have been empirically reported to have an influence on HR implementation and as a result, the employee perceptions of HR practices. That is, the concept of psychological contract is integrated so as to capture the notion of employee's perceived fairness in the employment relationship, and the concept of leader-member exchange (LMX) and perceived organizational support (POS) are included to elicit the influence of the quality of the organizational agents responsible for the HR delivery on employees' perceptions of HR practices.

The main objectives of this chapter are thus to: review the current literature related to HR-performance linkages; explain the relevance of social exchange theory with the study of HR-performance relations; and lastly, provide the logics of how the explanatory variables from the other fields of research, i.e. psychological contract, LMX and POS fit into an investigation of HR-performance relationship. The chapter is structured as follows. In

section 2.1, the point of departure from the shareholder to stakeholder approach into HR-performance research is explained. This is followed by a review of the literature related to HR-performance linkages (section 2.2) and consequently, key issues surrounding the HR black box are identified as well as the basic conceptual model of the research framework based on the HR-performance literature being proposed (figure 2-3).

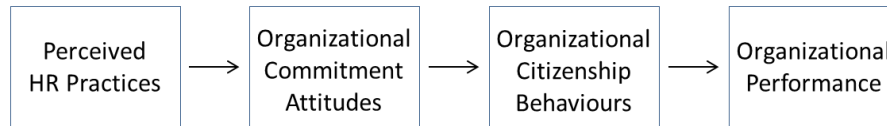


Figure 2-3 The Basic Conceptual Model of the Research Framework

Next, section 2.3 discusses different approaches to the employment relationship management, which involves integrating the literature on the employee psychological contract with that of HR-performance. More specifically, employer-focused employment management as characterized by high performance work systems (HPWS) and employee-focused employment management as depicted by the employee psychological contract are explained. As a result, the ‘perceived HR practices’ as shown in the basic conceptual model (figure 2-3) is extended to cover both the employer- and the employee-focused employment relationship management (figure 2-4).

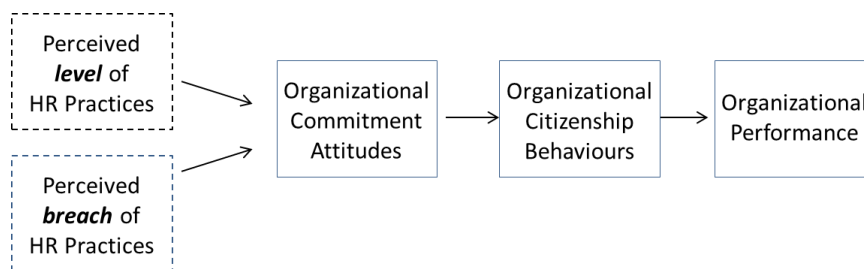


Figure 2-4 Extension of ‘Perceived HR Practices’ from the Basic Conceptual Model

In section 2.4 social exchange theory is explained which includes rules of exchange and the main elements constituting the theory, i.e. the content of exchange and the parties to the exchange. Subsequently, the application of

social exchange theory to the proposed HR-performance conceptual model is presented in section 2.5. In this section, two additional constructs, i.e. POS and LMX, are conceptualized to represent the quality of exchange parties that can influence employee experiences of HR practices in the investigation (figure 2-6). The rationale for choosing the financial services industry for the study is then explained in section 2.6.

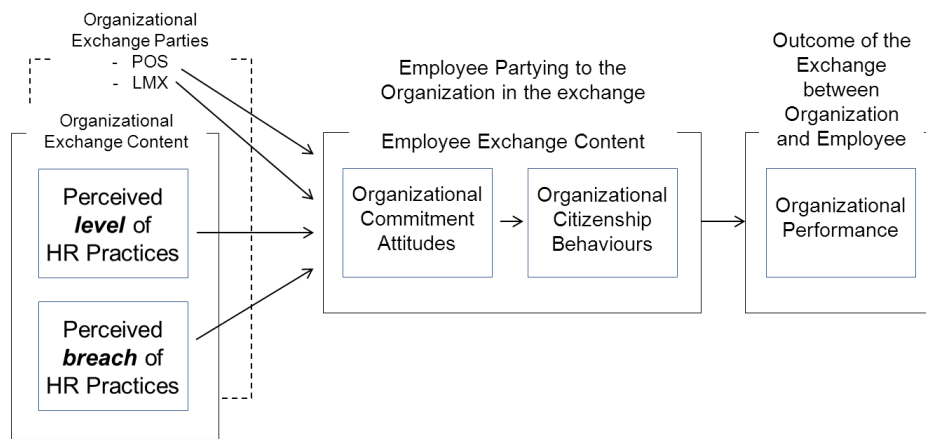


Figure 2-6 Matching Social Exchange Theory with the Proposed Conceptual Model

Finally, a multidisciplinary and multilevel research framework is presented in section 2.7, in which the rationale for the hypothesized relationships as depicted in figure 1-1 is explained and subsequently used to generate the research questions. Finally, the knowledge contributions of the study are described.

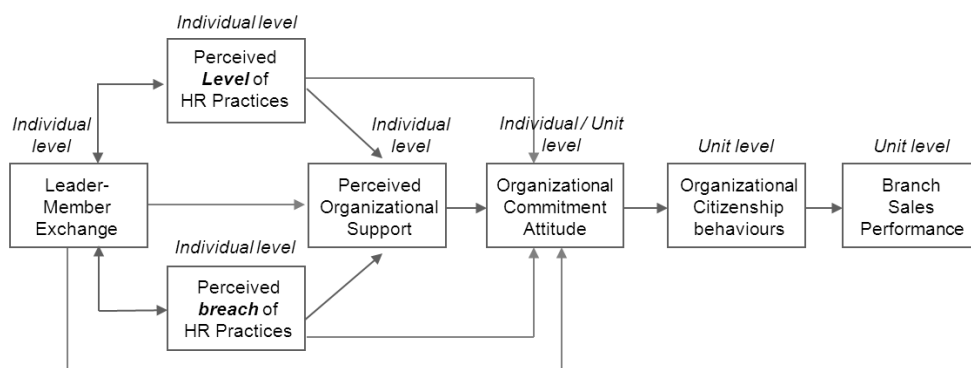


Figure 1-1 Multidisciplinary and Multilevel HR-Performance Research Framework

It should be noted here that the focus in this chapter is on discussing the extant HR-performance literature and providing the rationale for an integration of psychological contract, LMX, POS and social exchange theory with the HR-performance investigation. That is, the literature related to each construct, as shown in figure 1-1, except for that of HR practices, i.e. perceived level and breach of HR practices, is covered only briefly in the chapter, with the details regarding their identification and justification for use in the model being reserved for the relevant places in chapters 3, 4 and 5, where the study hypotheses are developed and tested. More specifically, in this regard, organizational commitment attitudes, perceived organizational support and leader-member exchange are elaborated upon in chapter 4, which subsequently contains the results and analysis pertaining to the HR-performance relationship at the individual level. The unit level measures of commitment attitudes, organizational citizenship behaviour and their association with branch sales performance is expanded upon in chapter 5, in which the results and analysis regarding individual-organizational performance linkages then follow. Finally, the rationale for using the branch as a unit of analysis at the organizational level and to use sales achievement as the unit performance measure is explained in the methodology in chapter 3.

## **2.1 The Stakeholder Approach to HR-Performance Research**

Human resource management (HRM) is part of the management process specializing in the management of people in work organizations (Boxall & Purcell, 2008). Its role is to provide employment practices to support the organization of work and the management of people to do the work, which impacts upon the achievement of organizational strategic goals and the sustainability of organizational competitive advantage. As a field of research, in the past decade, the investigation of HRM and organizational performance has predominantly been researched with regards to its association with a range of financial and economic indicators of the firm, such as: firm profitability, sales achievement, sales growth, return on assets,

return of investment and firm market value (Boselie, et al., 2005; Wright & Boswell, 2002). This type of research is referred to as a macro, strategic-oriented or strategic human resource management research, with its main interest being in the variance in the organizational level outcomes owing to the set of HR practices held in the investigation (Wright & Boswell, 2002). Paauwe and Boselie (2005) have explained that this type of research places the emphasis on the shareholder or the strategic contribution of HRM, with its underlying concept of people management being that an employee can be managed to identify with and engage in the organizational activities through the provision of HR best practices or high performance HR practices. Thus, under this approach, the employee perspectives in the HR-performance relationship have been largely ignored.

The stakeholder approach, on the other hand, offers a different perspective by placing the emphasis on other constituencies on which HRM practices could have an impact. This approach can be traced back to the seminal work of Beer and colleagues (1984), whose study encompassed key stakeholders to explain organizational effectiveness, such as: employee, customer, supplier, shareholder, trade union and works councils. These authors contended that this is necessary, because the management of human resources is about dealing with people issues in an organization and that both people and the organization are embedded in the wider context of society. Consequently, they claimed that the provision of people management practices would be effective if they match the interests of the key stakeholders. This suggests that the shape of HRM practices is influenced by both the internal and external environment in which the business operates (Jackson & Schuler, 1995) and thus, the design and implementation of HRM practices in the workplace can serve the different goals pertaining to these key constituencies.

HR scholars have identified the three key constituencies that an organization should take into account when implementing HRM practices (Boxall & Purcell, 2008; Paauwe & Boselie, 2005, 2007). These include: the shareholder, the society and local government through which legislation and

regulation are reinforced, and the employee. That is, HR practices should serve the economic objectives of the business, foster the relationship between the organization and society by corresponding to the local demand, legal framework and regulation of the societal culture, and lastly engender fairness and justice among the employees. Boxall and Purcell (2008) stated that a superior performance in HRM involves an outstanding mix of the outcomes across these objectives in that effective people management can serve as a mechanism for business value creation because this can be the source of sustained competitive advantage for the firm (Wright, et al., 1994). These three goals of HRM effectiveness are expanded upon next.

First, human resource management aims to serve the economic purpose of the business by providing HR systems that correspond with the business strategy, in relation to both its short and long term objectives. More specifically, HR systems should be aimed at contributing to sustained business competitive advantage through the enhancement of employee productivity and organizational flexibility, in ways that the employees are well prepared to support the change of the business strategy over time. For example, an organization needs to recruit for specific characteristics of service-minded employees, provide appropriate customer service training and drive employee performance through service related rewards, if its strategy is to provide differentiated customer service. In addition, those responsible for people management have to provide the company with a strategic repertoire of employees who are fully equipped with core competencies, critical skills and the abilities to anticipate change in the business in the long term.

Second, the goal of HRM is also to ensure that the entire firm conforms to the legal and social expectations of key constituencies in the wider environment, so that the management of employees corresponds closely with these requirements. More specifically, firms operating in a particular society are required to comply, minimally, with legal responsibilities imposed by the nation state regarding employee protection matters, such as: work conditions, employee welfare, minimum pay, collective bargaining

procedures, termination of employment and so on (Boxall & Purcell, 2008). Moreover, differences in national culture and social values can have implications for employee responses in the HR process (Aycan, et al., 2000) in that some practices could be more important and yield higher value benefits to the employee in one particular society than others (Rousseau & Schalk, 2000). For example, Wang and Walumbwa (2007) found that the provision of work flexibility benefits did not have a significant value with regards to driving employee commitment responses in collectivistic societies, i.e. China, Kenya, and Thailand. Spector, et al (2004) found long work hours had a more negative impact on employee attitudes in the Anglo countries, i.e. Australia, Canada, England, New Zealand, and the US than on collectivistic countries, i.e. China and Latin America. Therefore, it would appear that firms operating in a specific society can benefit from adopting its social values and legal framework in relation to the design and implementation of employment practices. By contrast, non-conformance practices can put an organization in danger, because this can lead to: public sanction (e.g. firm boycott), limited employee commitment to the organization or a union campaign against these practices (Boxall & Purcell, 2008; Delaney & Godard, 2001).

Last, apart from the incorporation of contextual factors into the design of employment, the other key objective of HRM is to achieve an employee relational goal (Paauwe & Boselie, 2007), whereby the organizational provision of HR practices should engender a high-quality relationship with its employees by maintaining fairness and justice among employees. This, as a result, creates the conditions of mutuality in the employment relationship. There are a host of factors particularly in the HR implementation process that can influence the perceptions of there being a lack of fairness in management practices, thus resulting in a breach of the psychological contract (Conway & Briner, 2005; Rousseau, 1995). These unfair perceptions could arise from: the way in which the line manager is deploying the resources; the employees' unfavourable comparison of their efforts with the organizational rewards; or the employees' being of the opinion that they are being treated unfairly when compared with other

colleagues or those at other workplaces (Boxall & Purcell, 2008; Purcell & Kinnie, 2007; Wright & Nishii, 2004).

Meta-analyses of organizational justice and psychological contract breach (Colquitt, Wesson, Porter, Conlon, & Ng, 2001; Zhao, Wayne, Glibkowski, & Bravo, 2007) have shown positive effects of perceived justice and negative effects of perceived breach of psychological contracts on both employee and organizational outcomes, such as: job satisfaction, organizational commitment, employee trust, and organizational citizenship behaviours. This implies that employee perceptions of the received practices, in respect to fairness, are critical to the performance of the business, because employees will adjust their contribution or efforts and performance to correspond with their perceived organizational inducement (Rousseau, 1989, 1995), which will in turn restrain the labour productivity and economic objectives of the firm. In this regard, Paauwe and Boselie (2007: 179) have asserted that the organizations need to 'treat their people well' in order to achieve this relational goal and thus, earn the employee contribution of support for the achievement of organizational goals.

In sum, the three goals of HRM encompass: the strategic level of people management by incorporating business objectives into the design of employment practices so as to enhance performance; the tactical level of people management by minimizing the conflict between the organization and society at large; and the operational level of people management by ensuring fairness among employees. That is to say, the stakeholder approach points to the multidimensional performance of HRM, such that at the strategic level it can be assessed on its effectiveness through the business economic and financial measures of performance, such as: sales, profitability and return on investment and the latter two could be operationalized through indicators, such as: employee commitment, trust, perceived fairness and organizational citizenship behaviours (Paauwe & Boselie, 2005). Thus, the relationship between HR practices and business performance is not merely that regarding the assessment of the economic value of these practices on the business outcomes, but rather, it involves the



design and implementation of HR practices that could serve these three goals of HRM, so as to engender to a positive impact on employee outcomes and business performance.

A stakeholder approach is favoured for this current research, because this would be consistent with calls to uncover the HR black box, which as explained in the next section, would make the employee another focal point in HR-performance research, the other key stakeholder of HR practices apart from the employer, something that has received scant attention in previous HR-performance literature (Boselie, et al., 2005; Boxall, Purcell, & Wright, 2007; Guest, 2004; Purcell & Kinnie, 2007; Wright & Boswell, 2002; Wright & Gardner, 2003). In addition, the issues in relation to the design and implementation of HR practices and how these link with the employee perceptions and responses in the HR-performance relationship will also be explained next.

## **2.2 HR-Performance Relationship: The HR Black Box Problem**

Rigorous research into HR-performance links has provided evidence for the relationship between HR practices and business outcomes following on from Huselid's (1995) seminal work demonstrating that there is an association between a set of HR practices, employee turnover, accounting profits, and firm market value. Moreover, whilst a decade of study has confirmed HR-performance links across industries through various measures of firm performance (Bartel, 2004; Batt, 2002; Delery & Doty, 1996; MacDuffie, 1995; Wright, Gardner, & Moynihan, 2003; Youndt, Snell, Dean, & Lepak, 1996), in parallel with this, growing issues surrounding the linking mechanisms or how HR practices actually affect business performance, have emerged (Becker & Gerhart, 1996; Becker & Huselid, 2006; Boselie, et al., 2005; Ferris, Hochwater, Buckley, Harrell-Cook, & Frink, 1999; Wright & Nishii, 2004; Wright & Boswell, 2002; Wright & Gardner, 2003).

This ambiguity and unexplained causal link is generally referred to as the HR ‘black box’ in the HR-performance literature (e.g. Boselie, et al., 2005). In this regard, Purcell and Kinnie (2007) have suggested that an investigation into the HR and business performance causal chain is necessary in order to explain the intervening variables inside it. Becker and Huselid (2006: 900) have contended that investigation regarding the HR ‘black box’ could be divided into two streams of research, one considering the ‘black box’ *within* HR systems (emphasis as original), with the central issue of this being to identify either the best fit or best HR practices that can lead to improved business performance (e.g. Delery & Doty, 1996). The other strand of research addresses the ‘black box’ *between* HR systems and firm performance, with issues relating to the process through which HR practices can enhance business outcomes becoming the main research interest (emphasis as original). Becker and Huselid (2006), based on their observation of some fieldwork and survey data, revealed that HR best practices or HR high performance work systems (HPWS), whilst having a positive impact on business outcomes, exhibit variance across firms that are quite significant and they argued this could be due to the difference in quality in the implementation process. That is, organizations carrying out the same set of HPWS cannot be assumed to be delivering high quality per se, because it is how the organizations carry out these practices, that distinguishes performance and this provides fuel for the need to understand the processes involved in the HR implementation and their implication in the HR-performance association (Gratton & Truss, 2003).

The main objective of this study is to uncover this latter type of HR black box by explaining the underlying process between HR practices and business performance. To do so, the development of the research framework for this investigation, as shown in figure 1-1 (chapter 1), will be systematically presented in this chapter. But, because of the nature of the interdisciplinary research, in this section, only the logic underlying the HR process as discussed in strategic human resource management (SHRM) literature, will be explained, which is structured into three subsections, as shown in figure 2-0.

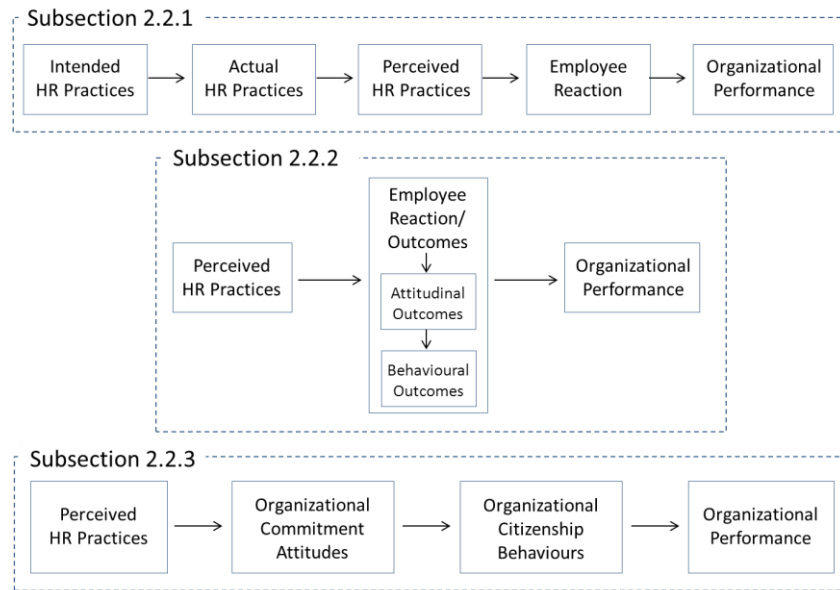


Figure 2-0 The Structure of HR Black Box Literature Review

In subsection 2.2.1, Wright and Nishii's (2004) SHRM process model, as shown in figure 2-0 above, is adopted as the basic foundation, with the starting point for this particular research being box 3, perceived HR practices or the employee perception of HR practices. Subsection 2.2.2 illustrates the relevant concepts and rationale for adopting employee reactions or employee outcomes as the mediating stages between HR practices and business performance. Subsection 2.2.3 provides a summary of the basic model applied in this research.

### 2.2.1 Strategic Human Resources Management Process and the Variation of Employee Perceptions of HR Practices

Researchers have noted that HR practices that employees actually experience at the receiving end can be considerably different from the initial quality of the intended practices (Becker & Huselid, 2006; Boxall & Purcell, 2008; Clinton & Guest, 2007; Gratton, et al., 1999; Hailey, Farndale, & Truss, 2005; Purcell & Kinnie, 2007; Purcell, et al., 2003; Wright & Nishii, 2004; Wright & Gardner, 2003). Wright and Nishii (2004) explained that this variance exists through the following chain of implementation, from

intended practices, through actual practices to perceived practices (figure 2-1).

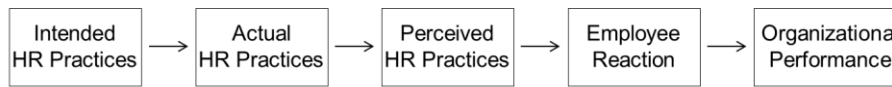


Figure 2-1 Process Model of Strategic Human Resource Management

Source: Simplified from Wright and Nishii (2004). Strategic HRM and Organizational Behaviour: Integrating Multiple Layer Analysis, International Seminar on HRM: What next? Erasmus University, Rotterdam.

Intended HR practices represent the HR systems that correspond with the business objectives and are influenced by the articulated values of the organization. In effect, they are aimed at eliciting the attitudinal and behavioural responses from employees necessary for organizational success. Employee understandings of intended HR practices can arise from their interpretation of the organizational philosophy of people management, the availability of current HR practices, and how to access these supportive tools. Usually, these intended practices are found in the HR manual, the employee handbook, or on the appropriate corporate web pages.

Turning next to the actual HR practices that are applied in reality, it is usually the line managers who are responsible for interpreting and subsequently acting upon these (Boxall, et al., 2007; Purcell & Kinnie, 2007; Wright & Nishii, 2004). Consequently, their decisions regarding how to implement them may not be uniform, which can lead to variations in employee perceptions of the HR practices even in the same workspace (Bartel, 2004; Gratton, et al., 1999; McGovern, et al., 1997; Purcell, et al., 2003). In other words, the perceived practices, as presented in box 3 in figure 2-1, may vary from those that were intended, depending on the accumulating variation accruing from the previous two stages of HR practices, with the line manager's discretion in the enactment process being likely as the main source of this variation. Employees would then respond to their perceived practices by demonstrating their discretionary effort and performance according to the level or the quality of the practices being

received, which collectively can have an impact on business outcomes (to be explained next in section 2.2.2).

These stages of HR practices and the variation that might be developed through the implementation process highlight some interesting measurement issues, that is to say: at which stage of HR practices should they be measured and who is best informed at each stage of their implementation. In this regard, Wright and Gardner (2003) suggested that there is no right or wrong decision in relation to the chosen stage at which practices should be measured, but that researchers should provide the right match regarding who and what is being surveyed. Moreover, at the intended stage HR representatives or management would know this best, whereas line managers are accountable for the actual practices and the employees are the best informants regarding the perceived practices.

Wright and Boswell (2002) have pointed out that SHRM research attempting to demonstrate the HR-performance relationship should assess what employees actually experience, rather than the intended practices. Empirically, a study of over 200 organizations across seven countries by Clinton and Guest (2007) revealed that there was a large discrepancy between reports of HR practices from employers when compared with those from employees. More specifically, they reported that there was little correspondence in the views of employers and employees with regards to HR practices, and that performance outcomes both at the individual and organizational levels were associated only with employee-reported HR practices and not with employer-reported HR practices. This emphasizes the point that understanding employee perspectives of HR practices and their reactions in the HR-performance causal chain are critical to the understanding of the elusive HR black box (Purcell & Kinnie, 2007).

In sum, it is plausible to argue that if a research endeavour is aimed at explaining the black box regarding HR-performance linkages, putting the focus on employees by eliciting perceived practices and their reactions to them will have more validity than otherwise. However, in this regard

SHRM or macro research has largely ignored the employee perspectives; only three out of 25 studies examined by Wall and Wood (2005) and eleven of the 104 research projects reviewed by Boselie, et al. (2005) used employee survey data. This researcher takes this on board and uses the employees who are one of the key stakeholders of HRM, to obtain information in relation to their perceptions of HR practices and reactions in the HR-performance process. Next, the logic underlying the mediating effect of employee outcomes in the links between HR practices and organizational performance is explained.

### **2.2.2 Employee Outcomes as Mediators in the HR-Performance Links**

Referring back to figure 2-0, this section illustrates the next two stages after employee perceived practices, that of how the employees act in response to their perceptions of HR delivery to support organizational achievement. In support of this position, Guest (1997) suggested that an appropriate HR-performance analytical framework should allow for the use of the ‘human factor’ to explain the variance in organizational performance, because this will discount the claim that factors other than human resources can influence a company’s profits or factory output. However, the measure of the contribution from human resources in HR-performance research has not been undertaken effectively and this is one of the research design failures that has weakened the findings in previous macro studies (Becker & Gerhart, 1996; Boselie, et al., 2005; Delery, 1998; Wright & Gardner, 2003). That is, these authors have argued that the measures of operational and financial outcomes that have been included in the majority of the previous research are distal from HRM influences (e.g. market environment and other economic factors) and consequently, this casts doubt on the current understanding of how HR practices provide value to the business as well as the contribution that human resources make to business outcomes. Thus, Guest (1997) has emphasized that in order to demonstrate the ‘human factor’ contribution, it is necessary that there is a clear conceptual model, which takes into consideration employee views as well as paying attention

to inputs, process and outcomes. In the previous subsection, ‘HR practices’ which play the role of the inputs in the HR-performance model were discussed, whereas in this section the ways in which the HR practices and business performance relationship can be explained through examining the contribution of human resources are investigated (figure 2-2).

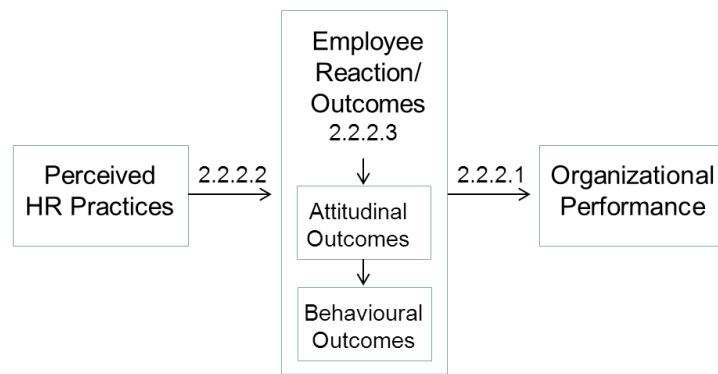


Figure 2-2 The Structure of the Literature Related to the Employee Outcomes as Mediators in the HR-Performance Links

First, the connection between individual and organizational level performance is discussed (subsection 2.2.2.1) and this is followed by an exploration of the ways in which HR practices could influence individual outcomes (subsection 2.2.2.2). Next, the logic of dividing the employee reaction or outcomes into the sequential stages of attitudinal and behavioural outcomes is explained (subsection 2.2.2.3). Finally, the rationale for assigning employee outcomes as the mediators in the HR-performance framework or as the process through which HR practices could add value to the business is put forward and justified.

#### **2.2.2.1 Connection between Individual and Organizational Level Performance: The Multidimensional Performance of HRM**

Wright and McMahan (1992) suggested that the ‘behavioural perspective’ is appropriate for research that focuses on the employee as the mediator in the HR process, because it assumes that the purpose of various employment practices is to elicit and control employee attitudes and behaviours that lead

to a number of outcomes that provide benefits to the firm. That said, the proponents of the behavioural perspective are interested in the throughput or HR transformation process, whereby HR practices can positively influence business performance through their impact on employee attitudes and behaviours. Consonant with this view, Lepak, Liao, Chung and Harden (2006) have proposed a similar notion of employee throughput that, regardless of the conceptualizations of HR practices, any HR systems can reinforce the achievement of organizational outcomes in practice, by enhancing employee performance. Their underlying assumptions were that organizations do not 'perform' and that it is the individuals in the organizations who perform in ways that allow the organizations to achieve the desirable effectiveness and performance outcomes.

Furthermore, Dyer and Reeves's (1995) categorization of outcomes suggested that the impact HR practices have on more distal outcomes is established through their impact on more proximal ones. That is, in HR-performance research the measures of the business unit level outcomes (distal outcomes), such as: productivity, quality, service and sales could be used as the next higher-level outcomes after the individual level ones (proximal), such as: employee commitment, citizenship behaviours, task performance, turnover and absenteeism. In other words, using proximal outcome indicators that the employee is likely to have an influence upon can provide a more plausible line of enquiry to discover the link between HR practices and organizational level outcomes (Boselie, et al., 2005). Moreover, this suggests that individual level outcomes are responsible for organizational performance and that a multi-level measure of performance outcome, from the individual to the organizational level, is required, if the HR-performance relationship is to be captured so as to elicit the contribution of human resources to business performance in a robust manner (Ostroff & Bowen, 2000; Purcell & Kinnie, 2007; Wright & Boswell, 2002; Wright & Gardner, 2003).



#### **2.2.2.2 Connection between HR Practices and Employee Outcomes: The AMO Concept**

The preceding discussion has highlighted the evidence regarding there being a connection between employee outcomes and organizational level performance in the HR-performance chain, such that the individual outputs lead to business gains. The mechanism through which HR practices leads to employee outcomes is now examined and there are several scholars who have put forward explanations for this (Campbell, McCloy, Oppler, & Sager, 1993; Lepak, et al., 2006; Vroom, 1964). Of which, the AMO model of performance has more recently been referred to in the HRM literature, with its proponents contending that practices constituting high performance and high commitment work systems, among others, improve employee outcomes through their influence on employees' ability (A), motivation (M) and opportunity to participate (O) (Boxall & Purcell, 2008; Guest, 2007; Lepak, et al., 2006). Next, the rationale behind the link between HR practices and employee performance is explained.

Campbell, et al. (1993) pointed out that an individual's performance is a function of his/her declarative knowledge (know what to do), procedural knowledge (know how to do) and motivation (discretionary effort). It follows, therefore, that effective HR practices are those that can activate and maintain this declarative knowledge, procedural knowledge and motivation among the employees. Other literature has suggested that HR practices, regardless of the strategic purposes envisaged and espoused by the employing organization, can influence employee outcomes in two important ways (Lepak, et al., 2006). On the one hand, there is the direct path through which HR practices can directly influence employees' knowledge, skills and abilities to perform the job, including such practices as selection and training. On the other hand, there is the indirect path, whereby HR practices: 1) motivate employees to perform through incentive and rewards; and 2) provide the supportive organizational context that strengthens employees' emotional attachment and commitment, which subsequently

allows them to utilize their skills, including such activities as participative management and empowerment.

Linking these direct and indirect paths with Campbell's theory of performance, the direct pathway fosters declarative and procedural knowledge or the ability to perform (A), whereas the indirect one helps strengthen the degree of employee motivation (M) to utilize their learned knowledge, thus achieving the tasks more effectively. This is also consistent with Vroom's (1964) proposal of performance dimensions<sup>1</sup> suggesting that performance is a function of employee ability and motivation. Blumberg and Pringle (1982), however, argued that besides the A and the M performance domains, opportunity to participate (O) is another important driver that can have an impact on employee performance. This could include a provision of sufficient work equipment, delegation of a new and/or challenging task, empowerment and/or an employee participation programme. Similar to the HR indirect pathway for influencing employee performance through the provision of a supportive organizational context (Lepak, et al., 2006), the opportunity to participate clearly incorporates the environmental factor that facilitates positive employee outcomes. The logic here is that if there is a lack of opportunity to participate or supportive environment, the employees will not be able to perform to their utmost in spite of their having both the will (M) and skills (A), which could undermine their long term commitment and motivation. Taken together, it would appear that the connection between HR practices and employee performance is through their influence on employees' ability, motivation and opportunity to participate (AMO).

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<sup>1</sup> Vroom (1964)'s Performance Model:  $\text{Performance} = f(\text{ability} \times \text{motivation})$

### **2.2.2.3 The Two Stages of Individual Performance: Attitudinal and Behavioural Outcomes**

In the two previous subsections, based on Wright and Nishii's (2004) process model, the linkages between perceived HR practices, employee reaction and business performance have been explained. In this regard, the linkage between the multidimensional performance of HRM, in which HR impacting positively on individual outcomes leads to enhanced business performance, has been discussed in subsection 2.2.2.1 and the underpinning concept of AMO performance drivers in the link between HR practices and employee outcomes has been illustrated in subsection 2.2.2.2. The focus of this subsection is to explicate the concept of employee reaction in the HR-performance causal chain. To do so, Ostroff and Bowen's (2000) multilevel model of HR systems and firm performance along with the proposition made by Purcell and Kinnie (2007) regarding the sequential effect of employee attitudinal and behavioural outcomes in the HR-performance relationship, are adopted to guide the discussion.

Ostroff and Bowen (2000) depicted a multilevel model of HR systems and firm performance involving a bottom up process, wherein HR's impact on the employee leads to enhanced performance of the unit. More specifically, they explained that employee behaviours, especially citizenship type behaviours, which include those, such as helping others, collaborative efforts and cooperation, collectively have a cumulative impact on firm performance (Organ, 1988). In addition, because all employees, regardless their levels of skills, job tenure or their job level can demonstrate this type of behaviours, it has been argued that OCB can have a collective impact on organizational effectiveness, when aggregated by people and over time (ibid.)

Ostroff and Bowen (2000) further argued that citizenship type behaviours are more likely to be driven by employees' affective attitudes and up to the present, job satisfaction and affective organizational commitment (AOC) are two such types that have been empirically reported as being strong

influencers of OCB (Organ, Podsakoff, & MacKenzie, 2005; Podsakoff, MacKenzie, Paine, & Bachrach, 2000). However, a stronger AOC-OCB relation was observed when job satisfaction and AOC were considered concurrently in the investigation (Schappe, 1998) and this could be the result of the compatibility of their broader focus on the organizational entity (Ajzen & Fishbein, 1977) in that AOC engenders a stronger degree of organizational identification and attachment (Meyer & Allen, 1991; Mowday, Porter, & Steers, 1982), and that organizational citizenship behaviours reflect informal role behaviours, such as collaboration and cooperation, that can improve the overall organizational or social environment in which task performance takes place (Organ, 1988). Consequently, employees with highly committed attitudes are likely to result in them wanting to pursue a course of action on promoting the organization's interests, one of which is their exhibiting citizenship behaviours (Meyer & Herscovitch, 2001).

Resonant with this view, Purcell and Kinnie (2007) also asserted that it is logical to establish the link from individual to organizational level performance through the sequential effect of attitudinal and behavioural responses, because it is the employee behaviours that have a direct impact on organizational results and the strength of this is driven by the level of employee affective attitudes. In other words, they argued that employee attitudes are linked with organizational outcomes through employee behaviours and therefore, the serial impact of employee affective attitudes on behavioural outcomes, which in turn result in effective business results, should be included in the investigation, if the research is aimed at explaining the cross-level effect of individual and organizational performance linkages in the HR-performance process.

Recall that the mechanism through which HR practices are believed to enhance employee performance is that these practices will lead to employees' high ability to perform tasks (A), high motivation to exercise discretionary effort to accomplish the tasks (M), and will also open up opportunities (O) for employees to participate in organizational activities

(Lepak, et al., 2006). Furthermore, because the objectives assigned to the employees are cascaded from those of the department and organization and HR intervention has the goal of enhancing employee performance through improving the employees' AMO, it is hence, logical to argue that successful HR implementation would impact on employee involvement in the form of their strong identification with and attachment to the organizational goals, which has been referred to as organizational commitment (Allen & Meyer, 1990; Meyer & Allen, 1991). Reviews of organizational commitment research have consistently reported that, among other dimensions, employees' perceived work experiences such as pay, promotion, job security, training, job design and communication, are the most important factors for the development of employee commitment (Allen & Meyer, 1990; Mathieu & Zajac, 1990; Meyer, Stanley, Herscovitch, & Topolnytsky, 2002; Rhoades & Eisenberger, 2002). In addition, positive associations between AOC and OCB, and between OCB and the unit-level outcomes, such as quality and quantity of work, sales performance and profitability have also been supported in the literature (Mathieu & Zajac, 1990; Meyer, et al., 2002; Organ, et al., 2005; Podsakoff, et al., 2000; Whitman, Van Rooy, & Viswesvaran, 2010).

Taken together, the linkages between attitudinal effect which is conceptualized in terms of employee commitment, behavioural outcomes which are taken as employee citizenship behaviours and its collective effect on business outcomes could provide new understanding regarding the link between individual and unit level performance (Ostroff & Bowen, 2000; Purcell & Kinnie, 2007). Reviews of the literature on organizational commitment, OCB and their associations with the other variables in the proposed study framework, as shown in figure 1-1, are presented in chapters 4 and 5, where too the specific hypotheses related to these relationships are proposed, tested and their results reported.

### 2.2.3 The Basic Conceptual Model of the Research Framework

The above discussion has demonstrated the input-process-output relationship, taking into account the ‘human factor’ in the HR-performance process, from which the basic conceptual model of the research framework is developed (figure 2-3). On the one hand, a link between individual outcomes and organizational performance has been established, suggesting that there is a need for a multilevel measure of outcomes in HR-performance research. On the other hand, the influential effect of HR practices through the AMO concept of performance, specifically in relation to the two stages of employee outcomes, i.e. employee motivation and their discretionary behaviours (OCB), has been put forward. In turn, OCB has been theoretically and empirically supported as having an impact on unit level performance.



Figure 2-3 The Basic Conceptual Model of the Research Framework

On reflection, it could be conceivable that the ‘human factor’ model of HR-performance linkages should include employee outcomes as the mediating stages between HR practices and business performance, for by including these outcomes it would be possible to observe more clearly the influence of employment practices on organizational performance. To date, very few HR-performance studies have taken a multilevel approach for investigation (cf. Nishii, Lepak, & Schneider, 2008; Sun, Aryee, & Law, 2007; Wright, et al., 2003). In this regard, Wright, et al. explained the HR-performance link across 50 business units in a large corporation just through employee affective commitment, whereas Sun, et al. examined the mediating effect of OCB only with regards to the links between high-performance human resource practices and productivity and turnover in the hotel business in China. Whilst both research projects adopted a multilevel approach for the investigation, they did not probe the emerging effect of individual attitudes

on team behaviours into their explanation of business performance. Moreover, although Nishii, et al. have incorporated these two stages of attitudinal effect (job satisfaction and organizational commitment) and behavioural outcome (OCB) to explain customer satisfaction at the unit level in their study of a supermarket chain, they based the variance in outcomes on HR-attribution (i.e. quality and employee enhancement, cost and employee exploitation and union compliance) and not on the employee direct experiences of the perceived content of HR practices.

In sum, this researcher is aware that previous research has explored the HR black box, to some extent, but would like to provide a more complete explanation of what is inside it. More specifically, the intention is to engage with the employee perspective so as to inform about the quality of HR practices (perceived HR practices), to elicit the process through which HR practices impact on employee affective commitment attitudes and organizational citizenship behaviours as well as to take a multilevel approach to provide insights into the individual-organizational performance linkages.

### **2.3 A Balanced HRM Approach to Employee Outcomes**

In the previous section, the development of the basic conceptual model based on the HR-performance implementation process has been explained and justified, where the employee has been identified as the key informant in the causal chain owing to their being the recipients of HR practices, hence resulting in their responses being linked to business outcomes (figure 2-3). In this section, ‘perceived HR practices’ is distinguished into two different constructs, each of which is based on the different approaches to employment relationship management, i.e. the organization- and the employee-focused (see dotted line boxes in figure 2-4).

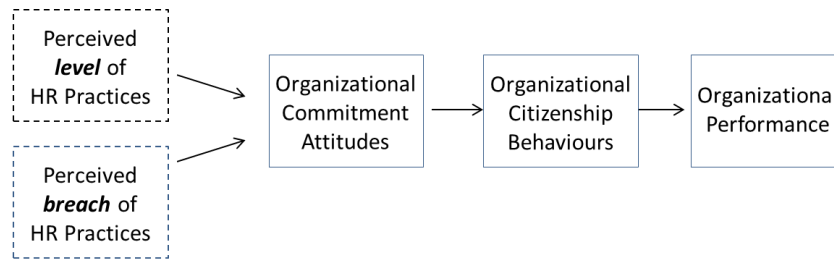


Figure 2-4 Extension of 'Perceived HR Practices' from the Basic Conceptual Model

The proposal to integrate these perspectives into a single study lies in a consideration of their complementary strengths that can work to compensate for the limitations of each in employment relationship research. That is, the perceived *level* of HR practices shown in figure 2-4 represents the organization-focused or the high-performance paradigm of employment relationship management (Delaney & Godard, 2001; Godard & Delaney, 2000), which refers to the belief that firms can improve performance by adopting a set of high performance work systems (HPWS). Whilst HPWS has been empirically reported as having a positive association with firm performance (Boselie et al. 2005), this perspective however, overlooks the potential conflict between management and the employee that can occur in the HR implementation process, which, in turn, can result in a decrease in employee trust in and commitment to the organization and the subsequent poorer economic performance of the firm (Coyle-Shapiro & Shore, 2007; Delaney & Godard, 2001; Godard & Delaney, 2000; Nishii & Wright, 2008; Purcell & Hutchinson, 2007; Wright & Nishii, 2004). Given this oversight of HPWS, on balance, the employee psychological contract (Rousseau, 1989, 1995), which is the micro level of the employment relationship focusing mainly on the employee responses to the employment practices, can reflect conflict arising from the incongruence between organizational promises and the actual delivery of the HR practices, which is referred in figure 2-4 as perceived *breach* of HR practices. It has been proposed that this concept should be incorporated into any investigation into the HR-performance relationship in order to elicit more clearly the employee interactions in the HR causal chain (Boselie, et al., 2005; Nishii & Wright,



2008; Paauwe & Boselie, 2007; Wright & Boswell, 2002; Wright & Gardner, 2003).

Accordingly, this researcher adopts both perspectives, arguing that employee commitment development is a process that follows two paths, one deriving from the perceived level of HR practices and the other regarding the extent that these practices are seen as having fulfilled or breached the employees' psychological contract. By doing so, the concerns of the two key stakeholders in the HR-performance process, i.e. the employee and the employer, are attended to, in that the management interest is captured by the provision of HPWS as the means to attain the economic goals and the employee's interest is covered in that their psychological well-being, as characterized by their level of breach perceptions in the employment relationship, are taken into account. In short, this researcher posits that there should be a balanced HRM approach in the HR-performance relationships.

In the following section, first, the organization-focused employment relationship management is discussed (subsection 2.3.1), which includes the identification of the scope of HR practices (a single HR practice versus HR systems), the high performance paradigm of employment practices and its limitations (see figure 2-5).

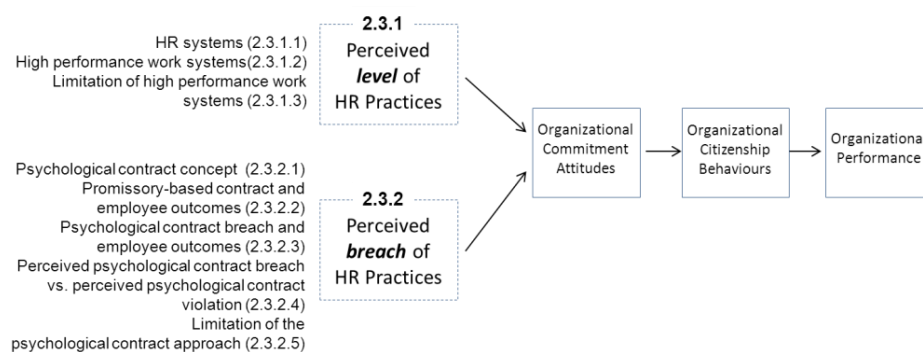


Figure 2-5 The Structure of the Literature Related to the Employer- and Employee-focused Employment Relationship Management

Next, the employee-focused employment relationship management will be explained (subsection 2.3.2), which includes the concept of the psychological contract, its implications in relation to the HR-performance process and the limitation of this approach to this form of management (see figure 2-5). Last, the proposal to adopt the aforementioned balanced HRM approach for the empirical research will be justified (subsection 2.3.3).

### **2.3.1 High Performance Work Systems and Employee Outcomes: The Organization-focused Employment Relationship Management**

#### **2.3.1.1 HR Systems**

The HR-performance relationship has been researched both from a narrow focus associating a single HR practice with organizational outcomes and from a broad brush of HR systems, in terms of their effects on the business results (Wright & Boswell, 2002). Whilst both single and multiple HR practices have provided substantial evidence on outcomes, the adoption of a systems approach to HRM research would appear to be more viable (Delery, 1998; Lepak, et al., 2006; Purcell, Kinnie, Swart, Rayton, & Hutchinson, 2009: 44; Wright & Boswell, 2002). This is because organizations rarely use HR practices in isolation and when only a single practice is under investigation; analysis of its impact on outcomes could well be flawed owing to the failure to control for the combined effects of unmeasured practices (Pfeffer, 1998; Wright & McMahan, 1992). As a result, an entire system of HRM practices should be examined in order to explain the impact and the way in which they influence individual outcomes and likewise, the business results.

#### **2.3.1.2 High Performance Work Systems**

Guest (2002) has broadly identified three dominant themes that HR systems can enhance business performance through the employee, namely high

performance approach, high commitment approach and strategic fit approach. The lattermost involves organizational strategy being used to inform the set of HR practices that would benefit the business and the effectiveness of these practices depends on how closely they are aligned among themselves (internal fit) and how consistent they are with the choice of business strategy (external fit). Among these choices are ‘defenders, prospectors or analyzers’ in Miles and Snow’s (1984) typology of competitive types, and ‘cost leadership or differentiation’ in Porter’s (1980) typology of competitive strategies. This approach has been referred in some literature as the best fit HR practices approach to the business performance (e.g. Boxall & Purcell, 2008). Moreover, previous research based on this best fit approach revealed that the alignment of HR practices with the business strategy produces results that are synergistic in terms of organization gains (e.g. Delery & Doty, 1996).

The high commitment approach covers the two related processes of high-commitment and high-involvement so as to engender employee motivation, in that both are seen to share the common premise of aiming to engage the employees in their job, the team and the employing organization. In particular, high-commitment HR systems focus on shaping and reinforcing psychological alignment between organizational and employee goals (Arthur, 1994; Wood, 1999), under the assumption that once institutionalized, in terms of identifying themselves with the organization, employees have the tendency to extend their discretionary effort so as to perform for the organizational good. Alternatively, high-involvement HR systems concentrate on an employee empowering strategy so as to encourage them to engage with the organization and its goals (Wood, 1999). Whilst both systems may target on the same aspects of employee engagement, the practices can differ owing to the different bases on which they founded (Guest, 2002; Lepak, et al., 2006). That is, practices like task autonomy and task initiatives are likely to be included in the high-involvement HR systems, whilst intensive training and socialization commonly manifest themselves in high-commitment ones. Further, both systems have received widespread reporting in terms of their impact on

employee attitudes and organizational outcomes (e.g. Arthur, 1994; Conway & Monks, 2009; MacDuffie, 1995; Wood, 1999).

Finally, the high performance approach comprises practices that are aimed at nurturing and enhancing employee discretionary effort, generally termed high performance work systems or high performance work practices (Guest, 2002; Guest, 2007; Lepak, et al., 2006; Pfeffer, 1998). Lepak, et al. argued that high performance work systems (HPWS) encompass both high-commitment and high-involvement HR systems and include all types of best practices, covering careful selection and intensive training, performance based pay systems, job security, information sharing, employee voice and participation. Guest (2007: 131) explained the mechanism through which an HPWS is believed to enhance employee discretionary effort as being that these practices instill workers with 'high ability/competence, high motivation, and an opportunity to contribute through jobs that provide the discretion, autonomy, and control to use the knowledge and skills and to exercise motivation'. In other words, an HPWS contributes to high levels of: employee confidence and ability to perform the task at hand; employee motivation to exercise discretionary effort owing to the management trust placed in them; employee involvement in the decision process; and opportunity for employees to participate as a result of decentralization and empowerment initiatives. This mechanism is consistent with Boxall and Purcell's (2008) and Lepak, et al.'s (2006) reference to the AMO performance model that places the implications of HR practices into three key performance domains: ability (A), motivation (M) and opportunity to perform (O). Empirically, this AMO framework has been referred to in SHRM research as the concept underlying the linkage between HPWS and business performance (Boselie, et al., 2005; Wright & Boswell, 2002). Thus, this researcher posits that it is logical to accept that HPWS improves employee discretionary effort through its influence on employees' AMO.

Taken together, all three main types of HR systems have been reported to have a business impact, but the underlying importance of the role of the employee is variable across these approaches. In this regard, it would appear

that the strategic fit model assumes that if the appropriate practices are in place then the employee outcomes will automatically support the business strategy and hence, under this perspective there is no consideration how the employee motivation and effort can be engendered by these practices. By contrast, the high commitment and high performance approaches accept that employee engagement and discretion are conceptually central to the linkages between HR practices and business performance. However, Lepak, et al. (2006) have asserted that an HPWS encapsulates both HR high-commitment and high-involvement systems and this could explain why, to date, HPWS and its underlying concept of AMO have been receiving more attention than other HR models in SHRM research. In this regard, previous studies have reported positive business outcomes, employee commitment attitudes, and discretionary behaviours as a result of HPWS being implemented (Appelbaum, Bailey, Berg, & Kallebergh, 2000; Bartel, 2004; Becker & Huselid, 1998; Delery & Doty, 1996; Macky & Boxall, 2007). In sum, given its strengths, as revealed in the above discussion, this research will adopt the HPWS as the source of performance drivers that results in employees engaging and identifying themselves with the organizational objectives.

### 2.3.1.3 Limitation of High Performance Work Systems

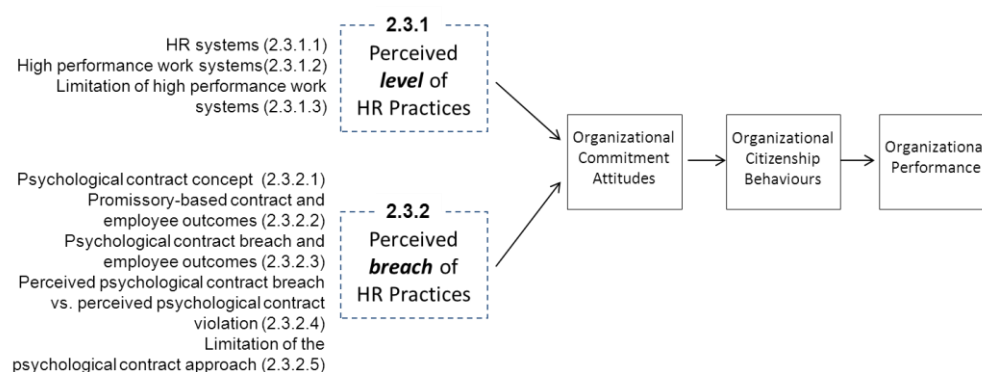


Figure 2-5 The Structure of the Literature Related to the Employer- and Employee-focused Employment Relationship Management

The foregoing review of the mechanism through which HPWS influences employee performance in the HR-performance process provides support for the claim that the employee is the key player in the causal chain. Nonetheless, the HPWS approach has been criticized for focusing primarily on management interests and thus, downplaying the issues of employee interests, fair treatment and well-being (Delaney & Godard, 2001; Guest, 2007; Guest, 2004). That is, although this approach, which has been referred to as ‘organization-focused’ employment management (Tsui, Pearce, Porter, & Hite, 1995), allows for more organizational flexibility to manage the workforce, proponents of it assume that employees’ goals and expectations have already been taken care of through its adoption. This is because under this lens it is implicitly considered that employee concerns have been addressed by HR provision to enhance their ability and motivation, thus giving them the opportunity to realize their potential, with the result being that organizational goals are attained. With respect to this, one review of HR-performance research has pointed out that the presence or absence of an HR practice as a dichotomous scale (‘yes/no’) as reported by HR personnel, is the dominant approach used in the extant literature (Boselie, et al., 2005). In other words, previous research has focused on the existence of a particular employment practice, rather than whether its application has satisfied the employee interests or met with their psychological interpretation of the employment relationship.

Rousseau (1995) explained that HR practices could serve as a signalling function by sending messages that employees use to assess the psychological meaning of their work situation, which in turn will guide their responses to the organization in the employment relationship process. Indeed, Nishii and Wright (2008) have argued that the strength of the relationship between perceived practices and employee reaction in the SHRM process model (figure 2-1), is subordinate to the employee psychological contract (Rousseau, 1989, 1995). Continuing with this line of reasoning, this would imply that employee commitment responses to the pre-defined high performance work practices are not arbitrary and consequently, it is necessary to identify whether these practices correspond

with the employees' views regarding the psychological contract and/or meet with their terms of exchange in the employment relationship (to be explained in the next section), if the employee commitment responses in the HR-performance process are to be clearly understood.

Recall that a variation in employment practices from the management intent to the perceived practices can occur through the implementation process. Accordingly, it is plausible that the employee could have experienced a discrepancy between the received practices and what was promised by the managers or what was understood by the employees from the documented employment practices. Hence, they could come to the opinion that the organization has failed to fulfil its obligations, causing an injustice and/or breached their psychological contract and this could seriously erode their trust in and commitment to the organization (Conway & Briner, 2005; Zhao, et al., 2007). These potential risks, illustrate the importance of taking into account employee perspectives, particularly those with regard to the psychological contracts, because it is the employees who are in receipt of HR practices and their perceived quality of HR practices can have an influence on their reactions and subsequently, the economic performance of the organization.

Because employee experiences of HR practices help to shape their perceptions of the exchange relationship (Rousseau, 1995; Rousseau & Greller, 1994), integrating the employee psychological contract into SHRM or macro research would illustrate more clearly the interaction between the organizational offer and employee willingness to respond in such a way that contributes to organizational gain (Boxall & Purcell, 2008; Wright & Boswell, 2002; Wright & Gardner, 2003). That is, although the implementation of HPWS is believed to engender employee organizational commitment that will eventually serve management interests regarding economic objectives, incorporating the employee lens of psychological contract into the overall process, thereby introducing employee concerns into consideration, will shed greater illumination on how these experiences

can impact on employee commitment responses in the HR-performance causal chain than otherwise.

By taking this account, advancement in the field of study would be made, whereby the ideal environment in which HR practices could generate mutual employer and employee gain in the employment relationship could be uncovered, something that has not yet been explicitly investigated in the extant literature. Next, psychological contract theory is discussed and its implications for employee outcomes are explained.

### 2.3.2 Employee Psychological Contract and Employee Outcomes: The Employee-focused Employment Relationship Management

In this subsection, the literature related to the employee-focused employment relationship management, including the concept of the psychological contract, its implications on employee outcomes and the limitation of this approach are discussed (i.e. 2.3.2.1-5 in figure 2-5).

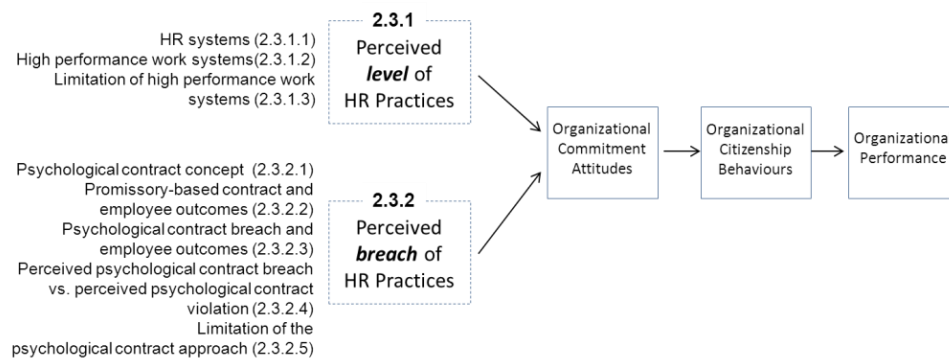


Figure 2-5 The Structure of the Literature Related to the Employer- and Employee-focused Employment Relationship Management

#### 2.3.2.1 Psychological Contract Concept

Psychological contracts are embedded in social exchange theory, which is concerned with reciprocal relationships between exchange parties, through which they develop felt obligation to repay the other party with something



of equivalence in value, in order to signify fairness in their exchange relationship and thereby ensure the continuation of further exchanges in the future (Blau, 1964; Gouldner, 1960; March & Simon, 1958). The development of the psychological contract concept can be traced back to the early twentieth century, when Barnard (1938) introduced his equilibrium model capturing employees' continued participation on the basis of organizational rewards, which has evolved with extra input from various scholars ever since (Argyris, 1960; Levinson, 1965; March & Simon, 1958; Schein, 1965).

However, it was not until Rousseau's (1989) seminal reconceptualization to include the meaning and functioning of the psychological contract and how it could be empirically investigated, that it has been increasingly used as a framework to study the relationship between the employer and the individual employee (Conway & Briner, 2005). Whilst there has been no clear consensus regarding a definition of the psychological contract to date (Guest, 1998), Conway and Briner (2005: 35) after reviewing the related literature, summarized that the most widely accepted definition is the one that put forward by Rousseau (1989, 1995, 2001).

Rousseau (1989: 123) defined psychological contract as

“an individual's beliefs regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party. Key issues here include the belief that a promise has been made and a consideration offered in exchange for it binding the parties to some set of reciprocal obligations”.

That is, psychological contracts are understood by the employee as mutual agreements between themselves and the organization, regarding the promising of rewards for their outcomes. The concept is based on the norm of reciprocity (Gouldner, 1960: to be explained in section 2.4), whereby the employees trust that the organization will repay them for what they have already 'paid for' with their labour (Rousseau, 1989: 128). In addition, the

ongoingness of the employer and employee relationship will continue as long as both parties have fulfilled the perceived obligation that they have towards one another (Blau, 1964; Gouldner, 1960). That is, the two main mechanisms, based on the psychological contract concept that might explain employee motivation and behaviour are the promissory nature of the exchange relationship and the met expectation or breach of psychological contract. Both are discussed next.

### **2.3.2.2 Promissory-based Contract and Employee Outcomes**

Scholars have explained that the promissory nature of contract provides a goal structure that can help motivate and direct behaviours (Boxall & Purcell, 2008; Conway & Briner, 2005; Rousseau, 1995; Wright & Nishii, 2004). In other words, the belief that the organization has promised and is committed to some future actions inspires the employee to serve the organization's best interests. Moreover, the perceived promises are formed based on employee experience and understanding of the explicit verbal or written promises, such as the employment contract and level of wage or the implicit promises arising from words or consistent and repeated patterns of actions, taken in context (Guzzo & Noonan, 1994). It is these latter implicit promises that predominantly shape employee psychological contracts and thus, an employee may perceive a promise as having been made without the employer ever having realized such an intention. The employees also assume, based on their understandings of the circumstances, that a mutually agreed contract between themselves and the organization has virtually been made (Rousseau, 1995: 10).

These perceptions of organizational promises can be developed throughout employee organizational tenure, starting from as early as during the recruitment process (Robinson, 1996; Robinson & Morrison, 2000). For example, the interview panels might have tried to convince a prospect employee to join the organization by expressing a future career opportunity and some attractive kind of development support that the focal person could

have on the job. Consequently, the employee would consider these as organizational promises, which s/he would carry with her/him into the employment relationship. Moreover, an ongoing interaction between the employee and the organization could also shape the former's perceptions of the organizational promises (Coyle-Shapiro & Kessler, 2000; Herriot & Pemberton, 1997; Turnley & Feldman, 1999). This can involve various organizational communication channels, through organizational agents (e.g. recruiters, managers), organizational actions (e.g. training, performance management, and staff meeting) and organizational documents (e.g. employee handbook or manual, company website) (Guest & Conway, 2002; Guzzo & Noonan, 1994; Rousseau & Greller, 1994; Rousseau & McLean Parks, 1993; Shore & Tetrick, 1994; Wright & Nishii, 2004). Therefore, it becomes apparent, as evidenced in the literature, that employee psychological contracts are likely to become broader and the psychological engagement deeper with longer service tenure (Robinson, Kraatz, & Rousseau, 1994).

This would imply that the employee may hold within a unique quality of organizational promises, meaningful to his/her terms of exchange in the relationship with the employer, even though the same set of HR practices is applied to all role holders. More specifically, it is what the employee believes s/he has agreed to that makes the contract (Rousseau, 1995: 10), which becomes the employee understanding of his/her terms of exchange with the organization and this is translated into the level of motivational force that influences the nature of their discretionary behaviour in anticipation of reciprocal payment. In general, employee perceptions of organizational promises have been found to influence employee attitudes and citizenship behaviours (Coyle-Shapiro, 2002; Lambert, Edwards, & Cable, 2003; Montes & Irving, 2008).

### **2.3.2.3 Psychological Contract Breach and Employee Outcomes**

The other key mechanism that can explain employee motivation is the extent to which the organization has been perceived to have breached the employee's psychological contract or the extent that the employee believes the organization has failed to fulfill any of its obligations (Robinson & Rousseau, 1994). In this regard, Coyle-Shapiro and Conway (2004: 16) have argued that 'probably the most important construct in psychological contract theory, in terms of understanding how psychological contracts affect employee attitudes and behaviors, is that of 'breach'.' That is, because the psychological contract underpinning social exchange theory involves an element of trust, a sense of relationship, and a belief in the existence of a promise of future benefits (Rousseau, 1989: 128), its breach can potentially trigger wider effects, such as: a feeling of inequity, betrayal, and organizational mistrust, and consequently, the employee becomes suspicious of any future actions taken by the organization (Conway & Briner, 2005: 71). This effect can also be explained through Adams' (1965) equity theory, which suggested that the presence of inequity in the relationship will motivate the other party to adjust his/her inputs to balance the outcomes so that the inequity is reduced. That is, the employees will reduce their level of efforts to offset their perceptions that the psychological contract has been broken by the employer.

Employee outcomes (e.g. commitment attitudes, extra-role behaviours and intention to quit/remain with the organization) in relation to breach or fulfillment of the psychological contract have been consistently reported in previous research, wherein breach perceptions lead to a decline in employee outcomes and a positive effect is reported when employees feel that the organization has fulfilled its obligations (Coyle-Shapiro & Kessler, 2000; Guest & Conway, 1998; Robinson, 1996; Robinson, et al., 1994; Robinson & Morrison, 1995; Sturges, Conway, Guest, & Liefoghe, 2005). For example, employee commitment and performance ratings have been found to have positive associations with the degree to which they perceive that the psychological contract has been fulfilled (Coyle-Shapiro & Kessler, 2000;

Sturges, et al., 2005). On the other hand, Robinson (1996) reported, in her longitudinal study, that breach perceptions decrease the level of employee trust in organization, which is subsequently associated with a decline in employee organizational citizenship behaviours and their self-reported performance rating. In addition, Robinson, et al. (1994) found that employee obligations, which are reflected in their willingness to work extra hours, employee loyalty, and extra role behaviours, decline over time when they perceive that the organization has failed to fulfill its commitments.

Shore and Tetrick (1994) have pointed out that in cases where the psychological contract breach is perceived as having grown bigger and deeper, the employee orientations towards calculative discrepancies can shift away from the cognitive (psychological contract breach) to the emotional or affective state (psychological contract violation)<sup>2</sup>, particularly when the employees perceived that the breach is caused by organizational unwillingness to keep its promises and that there has been unfair interpersonal treatment (Morrison & Robinson, 1997). They explained that regarding the latter, the employee may seek revenge or retaliation by engaging in sabotage, theft, or aggressive behaviours and these potential deleterious effects highlight the importance of the employee psychological contract in the employment relationship process.

In sum, the motivational force arising from the promissory channel, in theory, should function to engage the employee with organizational activities, and this motivational level will be maintained as long as the promises are being fulfilled, but will become diminished when perceptions of psychological contract breach are realized. As mentioned earlier, a variation of HR perceptions could have occurred in the HR enactment process, because the HR implementation process concerns several parties, such as HR personnel, senior management, line managers and co-workers, who might have different understandings of the organizational intent of HR practices. Therefore, the inconsistency in the application of HR practices

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<sup>2</sup> The differences between psychological contract breach and psychological contract violation are provided in subsection 2.3.2.4.

evolving from the implementation process could also have involved the communication of some kinds of promises that the individual employee holds in the exchange relationship (Rousseau, 2001). For these reasons, it is likely that there will be an imbalance in the relationship, whereby the received practices or organizational reciprocations do not match perceived promises, thus leading to a perception of there being psychological contract breach. In sum, from the above it can be surmised that whilst proponents of HPWS claim that the provision of HR systems enhances employee involvement and motivation to support organizational benefits, this could be restrained owing to the development of breach perceptions in the employment relationship. Moreover, this could, perhaps, explain why an organization would earn less effort from one particular employee than the others, albeit that they are embedded in the same organizational context (Nishii & Wright, 2008; Wright & Nishii, 2004).

#### **2.3.2.4 Perceived Psychological Contract Breach vs. Perceived Psychological Contract Violation**

Morrison and Robinson (1997: 230) proposed that unfulfilled obligations can take the form of perceived contract breach and perceived contract violation, where the former refers to ‘the cognition that one’s organization has failed to meet one or more obligations within one’s psychological contract in a manner commensurate with one’s contributions’. Put simply, the perceived breach is a result of a cognitive comparison of what has been received and what was promised. The authors further explained that these calculative discrepancies may develop into an emotional or affective state or even the perception of contract violation, depending on the individual’s interpretation of the particular breach. Rousseau (1989: 128) pointed out that contract violation involves ‘feelings of betrayal and deeper psychological distress [whereby]...the victim experiences anger, resentment, a sense of injustice and wrongful harm’. This description implies that perceived contract violation engenders more intense feelings

and potentially leads to more extreme responses from the employee than under perceptions of psychological breach.

Shore and Tetrick (1994) maintained that whether the discrepancies will shift from a cognitive to an emotional state depends largely on the employees' assessment on: 1) the size of contract discrepancies; 2) organizational intent (whether it is the organization reneging on or misunderstanding of the contract between parties) and 3) the nature of breach, i.e. distributive injustice (e.g. perceived as an unfair distribution of financial rewards), procedural injustice (e.g. perceived unfair procedures regarding outcomes allocation), and interactional injustice (e.g. perceived unfair interpersonal treatment across the peer group). Among these, it has been reported that organizational ill intent or unwillingness to fulfill the obligations and unfair interpersonal treatment are the main triggers for intensifying feelings of: anger, betrayal, mistrust, and hence, feelings of contract violation and that employee react to psychological contract violations with a wide range of emotions, such as organizational sabotage (Morrison & Robinson, 1997; Robinson & Morrison, 2000).

Conway and Briner (2005: 65) commented that the concept of violation involves interceding judgment by the employees and has not been well expounded, while breach is a very well traversed in psychological contract research. Research on the former, to date, has focused on the way in which the violation has developed (cf. Morrison & Robinson, 1997; Robinson & Morrison, 2000), whereas contract breach study has been more interested in the resulting effects on the employment exchange relationship (Zhao, et al., 2007). It is not the purpose of this current research to identify the causes of employee action at its extreme; rather, the intention is to pay attention to responses that are expressed in a less intense manner, namely, the subtle impacts on feelings (employee commitment) and behaviours (OCB), which are key attitudinal and behavioural factors that can affect business gain. That is, only the employees' perceived contract breach or their cognitive comparison between organizational promises and inducements, in respect of HR practices, is considered in the empirical analysis.

### **2.3.2.5 Limitations of the Psychological Contract Approach**

Psychological contract is perceptual and subjective to the individual (Rousseau, 1989), and the perceived breach of contract is, therefore, based on an employee's comparative interpretation process, which is a subjective notion rather than an actual objective agreement (Morrison & Robinson, 1997). Moreover, a breach perception can occur in relation to any explicit or implicit promise and as a result, any employee can claim it has happened, even when an objective evaluation of the situation would not support this conclusion (*ibid*). This can be problematic, because it is virtually impossible for an organization to keep abreast of the constantly changing organizational promises that the employee perceives to be held in the exchange relationship and thus, it will inevitably fail to fulfill its obligation in the eyes of some of its employees. In other words, to these people, the organization will have broken the psychological contract and hence, as pointed out above, they will reduce their efforts so as to restore their view as to where the social exchange equilibrium should lie.

The other point is that Rousseau's notion of psychological contract accepts only the employees' terms of exchange to provide insights into their subsequent outputs. Owing to this one-sided stance, more recently an alternative approach to the psychological contract has been introduced into the research, one that includes both the employer and employee perspectives to explain the employment relationship (*cf.* Guest & Conway, 2004; Guest, 1999; Herriot & Pemberton, 1997). Under this lens, the focus has been mainly on the level of congruence in the employee-employer perspective of the employment practices, through a comparison of organization and employee reports regarding organizational promises, thereby eliciting comprehension of the observed employee attitudes and behaviours. Nevertheless, because the aim in this current study is to understand employees' experiences and their reactions bound up in the HR-performance links, rather than the degree of congruence between parties regarding the employment practices and their effects, the intention here is to



follow Rousseau's view of the psychological contract, by considering only the employee perspective of it in this investigation.

In sum, the exponents of the psychological contract approach have focused mainly on the employee side of the employment relationship, whilst those expounding the need for high performance work practices have paid more attention to the employer perspective. Both the employee and the employer are the important stakeholders in the HR-performance causal chain and thus, this researcher is of the opinion that the employer purpose of high performance work practices conducive to employee commitment responses as well as the employee psychological well-being pertaining to their reaction in the HR process, could equally be important indicators of the effectiveness of HRM and hence, should be included in any subsequent analysis. The challenge lies in the circumstances under which HR practices can balance both perspectives of the organization and the employee (Guest, 2007). The way in which these two perspectives are incorporated into the current study of the HR-performance relationship is considered next.

### 2.3.3 An Integration of Organization- and Employee-focused Employment Relationship Management

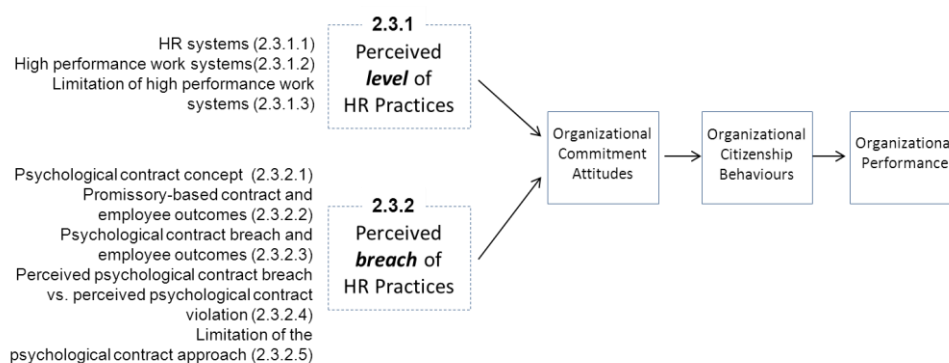


Figure 2-5 The Structure of the Literature Related to the Employer- and Employee-focused Employment Relationship Management

In subsections 2.3.1 and 2.3.2 (see figure 2-5), the organization- and employee-focused approaches to employment relationship management

have been discussed in that both share a common objective, that of explaining employee outcomes, but proponents of each maintain different interests regarding any investigation and hence, each has its limitations. More specifically, the main focus of organization-focused employment management is the provision of high performance work practices (HPWS) can engage employees in supporting business success, whereas employee-focused employment management involves paying more attention to the employee assessment of the psychological meaning of the receipt of employment practices and their subsequent attitudinal and behavioural responses.

Shore, et al. (2004) deduced that high performance work practices and psychological contract approaches focus on the terms of exchange of different parties. That is, the organizational offer of HR systems can be considered as being analogous to the organization's terms of exchange, in that it expects employee discretionary effort in return for its investment in HPWS. In contrast, Rousseau's notion of individual psychological contract, in which employee outcomes are explained by their perceived promises and perceptions of breach or met expectation of the psychological contract, can be seen as holding only the employee's terms of exchange in the employment relationship. This would suggest that an integrative research, which includes the employee psychological contract into the HR-performance investigation can capture both the employer's and employee's terms of exchange, thereby providing more robust insights into the employee discretion in the HR-performance process than were it otherwise.

HR-performance researchers have asserted the importance of encompassing the employee psychological contract in HR black box explanation (Wright & Boswell, 2002; Wright & Gardner, 2003) and similarly, researchers into the fields of psychological contract and social exchange (e.g. Aselage & Eisenberger, 2003; Shore, et al., 2004) have suggested this same initiative in the opposite direction so as to elicit clearer understanding of the employment relationship than hitherto has been achieved. This is because it is possible that the employee outcomes could be simultaneously driven

both by the provisional level of HR practices and by the employee assessment of the degree to which these practices have met their understandings of organizational obligation (breach of HR practices). Therefore, it is posited that an integration of the employee-focused (psychological contract) and organization-focused (high performance work systems) approaches for HR-performance research would extend the current understanding regarding the variations in employee and organizational performance. That is, this would allow for capturing of another important dimension of employee experiences, namely psychological contract breach and how this impacts on the HR-performance relationship (Becker & Huselid, 2006; Boselie, et al., 2005; Wright & Boswell, 2002; Wright & Gardner, 2003).

## **2.4 Social Exchange Theory: A Framework Underpinning the Employment Relationship**

In the previous section, the two approaches to the employment relationship being adopted in this HR-performance investigation have been described. The employer-focused approach, on the one hand, that takes into account the business environment, offers the employee a value proposition aimed at motivating them to support the organizational objectives. On the other hand, the employee-focused employment relationship refers to the employee's assessment of whether there has been psychological contract breach or fulfillment, which can affect their discretion level. In this section, social exchange theory, which is to be used as the backdrop to explain the exchange relationship between the employer and the employee, is explained. First, there is a description of the core theory of social exchange (subsection 2.4.1) along with its underlying concept in the exchange process and the norm of reciprocity (subsection 2.4.2). This is followed by a discussion on the other two key elements constituting social exchange theory, these being, the different characteristics of economic and social exchange content (subsection 2.4.3) and the parties to the exchange (2.4.4).

### **2.4.1 Social Exchange Theory**

Social exchange theory is an interdisciplinary theoretical development derived from disciplines including anthropology, social psychology and sociology with the common view that social exchange involves a series of interactions that generate obligations (Cropanzano & Mitchell, 2005). More specifically, it involves reciprocal relationships between parties through which they develop felt obligation to repay their exchange parties with something of equivalence in value, in order to signify fairness in the exchange relationship and thus, a continuation of future exchanges (Blau, 1964; Gouldner, 1960; March & Simon, 1958). The concept of exchange relationship was introduced in the workplace setting through the inducement-contribution relationship model (March & Simon, 1958), which explained that if the inducements offered by the organization satisfy the employee, this will motivate them to participate and contribute to outcomes.

As with the inducement-contribution model, social exchange theory (Blau, 1964) is based on Gouldner's (1960) norm of reciprocity (to be explained next), but under this perspective the concepts of economic and social exchange content are considered as separate entities and the varying strength of the other party's obligation to repay is based on their assessment of the value of these exchange contents. Coyle-Shapiro and Conway (2004) have pointed out that up to the present social exchange theory has been used rigorously and is the dominant theory in employment relationship research. Purcell and Kinnie (2007) have also suggested that the theory of social exchange could contribute to the explanation of the perceived values of HR practices in relation to employee efforts and performance (cf. Lambert, 2000; Malhotra, Budhwar, & Prowse, 2007).

### **2.4.2 Norm of Reciprocity**

Underpinning social exchange theory is Gouldner's (1960) norm of reciprocity, which addresses the key principle that people should help those

who help them and in turn, those whom you have helped have an obligation to help you. In other words, the individual is motivated to initiate the exchange relationship, because s/he anticipates some return from the association in the future. The key mechanism is that felt obligation is being developed in the process, which is the driving force to reciprocate to the other party. Whilst a norm of reciprocity could be hypothesized as being universal, Gouldner (1960: 171) however, asserted that there exists a variance of felt obligation of repayment, which is contingent upon the recipient's valuation of the benefits received, such that the more highly valued these are then the stronger the perceived obligation to reciprocate. Moreover, he pointed out that the societal context in which the exchange takes place can influence the perceptions of the value of the benefits and hence, the level of indebtedness and felt obligation. That is, the same benefits might give different values pertaining to the broader contextual environment in each society.

Furthermore, Gouldner (1960) also described the circumstances in which the recipients, though residing within the same societal context, might well perceive the benefits as having differential value, these being: when (a) the recipient is in greater need; (b) the donor cannot afford to (but does) give the benefit; (c) the donor provides the benefit in the absence of a motive of self-interest; and (d) the donor was not required to give the benefit. For example, an employee would generally feel gratitude if they could get line manager's support on personal related matters, because this would show that the latter had extended their role and thereby engender in the employee a sense of indebtedness in the relationship. Under these circumstances, the employee feels a strong obligation towards the line manager, because s/he has provided the former with something beyond his/her duty and this reinforces that person's sense of indebtedness and the need to take reciprocal action. This feeling would be stronger if s/he gets this support when in need and even stronger if the line manager does it at his/her own expense.

In addition, Gouldner (1960: 172) also contended that the nature of reciprocation can be divided into homeomorphic reciprocity, in which the repayment is identical in form or circumstance and heteromorphic reciprocity, in which the repayment could be concretely different in form, but equal in value, as perceived by both parties. Taking the above example on personal matters, the employee could provide the same kind of support if the line manager were facing the same situation (homeomorphic reciprocity), or s/he could return the good deed by making an extra effort by, for instance, working extra unpaid hours so as to help the manager achieve a target (heteromorphic reciprocity).

Moreover, the norm of reciprocity concept also implies that the reciprocal process is a continuous loop, because the exchange parties will take into account the prior benefits when carrying out future exchange. In other words, from the above example, the reciprocal exchange between the line manager and employee will not end even though the employee has repaid the line manager. In sum, Gouldner's norm of reciprocity suggests: 1) that once initiated the parties will continuously engage in the reciprocal process; 2) that the strength of obligation or indebtedness is contingent upon the value of the benefits as perceived by the other party; and 3) that what is exchanged can be approximately equal in form and value or of different form but still of similar value.

### **2.4.3 Economic vs. Social Exchange Content**

Blau (1964) introduced the value of exchange content and its implications regarding the continuity of the exchange relationship, proposing that the calculated gains in the processes will determine whether future exchange takes place. That is, notwithstanding the concept of equivalent values of exchange content, as contained within Gouldner's norm of reciprocity, Blau emphasized the implications of an imbalance in the reciprocity of the exchange relationship, in that the process will be discontinued, if one party perceives that the content of the exchange proposed by the other party is

incommensurate with what s/he is about to invest or has invested in the relationship (ibid.). In other words, Blau's theory of social exchange limits the exchange relations to 'actions that are contingent on rewarding reactions from others and that cease when these expected reactions are not forthcoming' (1964: 6), thereby highlighting the importance of exchange content and its values as proxies to the continuity of the reciprocal process and subsequently, he proposed two forms of exchange content: economic exchange and social exchange (Blau, 1964, 1968). The key differences between these two exchanges lie in the nature of specified and unspecified obligation and the embedded attributes, including trust, personalized value of benefits and timing regarding the repayment of the obligation. The details of which are discussed next

Economic exchange is characterized as being the exact content and quantitative medium of the exchange between parties in a given time-bounded period. Put differently, in this type of exchange both parties can calculate the potential benefits that one could expect to receive from the other party before getting him/herself into the relationship. Moreover, each party, if agreeing to the deal, would understand his/her obligations in the agreement or contract upon which the exchange is based. However, an impasse would have occurred and the exchange would not take place, if one party was not satisfied with the offer made by the other. For example, a job hiring would not be successful, with no job offer was being made, if the candidate asked for a higher remuneration than that proposed by the company and the company had no intention of adjusting it to suit.

Social exchange, by contrast, depicts unspecified obligations and is likely to prompt feelings of obligations, gratitude and trust (Blau, 1964). Following on from the norm of reciprocity, social exchange rests on the principle that one does another a favour based on his or her personal expectation that the other party will return it in the future, but its exact nature is not specified in advance. Therefore, social exchange involves favours that create diffuse obligations, which are left to the discretion of the one who makes them and since there is no way to assure the appropriate return for them, both in terms

of the content in the exchange and when this exchange will be discharged, it requires trusting others to reciprocate the benefits received in kind. It is likely, as a result, that the exchange parties will have to try out each other first, moving with caution from a small risk inducement, where little trust is required, then proceeding with higher risk transactions after both parties have proven their trustworthiness in the processes (Blau, 1968: 454). He further summarized the nature of unspecified obligations in the social exchange as 'processes of social exchange, which may originate in pure self-interest, generate trust in social relations through their recurrent and gradually expanding character' (Blau, 1964: 94).

Blau (1968: 455) has also delineated the difference between economic and social exchange in respect to the personalized value of exchange content, pointing out that exchange benefits received from unspecified obligations are unquantifiable, since not only do they involve the economic valuation of the content in the exchange, but also that of the investment made in terms of trust, time and the underlying relationship between the parties in the processes. It is worth noting that Gouldner (1960) took societal values and circumstances of the exchange as the source of variation regarding employee interpretation of the exchange resource, whereas Blau (1968) took into account the psychological investment one has put into the relationship to justify the value of the benefits received.

Recall that social exchanges are unspecified obligations requiring trust that the other party will reciprocate these in an undefined timeline, thereby potentially making the investment a combination of the exchange content itself, the length of the reciprocal waiting period and the level of personal trust in the other party. He therefore, argued that because of the psychological aspects of this investment, those who receive the social benefits are unlikely to be able to detach the source or the party that supplies them. Thus, the benefits based on social exchange content are meaningful, because they carry personalized values held by the recipients, which are not present during economic exchange. This also suggests that a good deed from the other party might generate either weaker or stronger gratitude than



was expected, thus making the recipient's psychological valuation more volatile than in a straightforward financial transaction, which could inadvertently result in a decline or rise in the strength of the relationship between the parties.

For example, a sales incentive is an economic exchange, whereby a salesperson will squarely receive his/her sales bonus (organization inducement) based on the sales volume (employee contribution) made over a given time period. Consequently, employees who are entitled to receive this sales incentive are able to calculate the value of the benefits based on their sales performance. In addition, the value does not change should this incentive be awarded by other organizations that are subject to the same contractual obligations. In other words, this type of economic exchange involves an impersonal interaction that covers the financial and more tangible aspects of the exchange relationship between parties (Shore, et al., 2004).

In contrast, the provision of an intensive training course (organization inducement) aimed at improving employee skills and hence, their contribution is an example of social exchange, in that no quantifiable term of the delivery is clearly specified, there is no specific timeframe as to when this contribution shall be made and hence, it is left to employee discretion as to what and when s/he will contribute to the organization. Consequently, a group of ten employees attending this same course could have different opinions on the benefits being received, with the resulting outcome being that they possess varying degrees of obligation to repay. In other words, the underlying relationship between parties (organization and individual employee), in this and similar circumstances, is a unique employee experience. For instance, some employees might wait longer than the others to attend the course (differences in the level of trust and vesting period), whereas others might find it more relevant and significant to their current job (differences in the level of employee needs) and some might even find being asked to attend the training a sort of punishment implying they are incapable of performing the role (differences in the level of

distrust). This shows how the same organizational inducement, in this case a training course, can generate varying perceived benefits depending on the employees' valuation of the offer. Their circumstances and unique relationship with the organization, subsequently result in a varying strength of felt obligation to repay the organization, with in the lattermost instance there being none at all.

Thus far, the two important elements of social exchange theory, i.e. reciprocal process and resources of exchange, have been explained, in that Gouldner's (1960) norm of reciprocity describes the general process established in the exchange relationship, whilst Blau's (1964, 1968) social exchange concept separates the economic and social exchange content and the implication of this for the strength of obligation and the ongoingness of the exchange relationship. Next, parties to the exchange, who are another key element in the exchange relationship, are discussed.

#### **2.4.4 Parties to the Exchange**

Blau's (1964) social exchange theory, which is based on Gouldner's (1960) norm of reciprocity for explaining the underlying process of social exchange, mainly places its emphasis on the dyadic exchange relationship between individuals within a society. Moreover, together with the inducements-contributions model (March & Simon, 1958), which captures a dyadic exchange relationship between the employee and the organization (a single unified entity), the theory has been widely adopted in organizational research to explain employment relationships in the workplace (Shapiro & Shore, 2007; Shapiro & Conway, 2004). These scholars observed that most organizational exchange studies, to date, have taken up this dyadic nature of exchange to explain the relationship between the employee and the employer.

Levinson (1965) explained that one of the underlying properties that employees often confer on an organization is that they treat it as a single

unified entity with human qualities and hence, in their opinion, the organization is legally, morally and financially responsible for its own agents' actions, a process which he referred to as employee personification or anthropomorphization of the organization. Further, it is because of this assumption regarding the transference by the employee towards the organization that the organization devises guidance for a consistency in its members' behaviours, which it supplements with its prior knowledge of precedents, traditions, and informal norms. This implies that the organization functions as a living organism providing platforms for its agents to operate on its behalf.

Therefore, in extant employment relationship research, the assumption has usually been made that the employee relates to the organization as an existent being that is sensitive to the psychological orientation of its members, in that it can make, keep and break promises, as hypothesized in psychological contract research. Moreover, because employees adopt this holistic anthropomorphized view of the organization, all of its agents (e.g. senior management, supervisor and HR personnel) are seen as the trustworthy representative of the organization involving themselves in the psychological contracting process and hence, the employee can identify with, feel loyalty to, and have affection towards the organization as a whole.

Social exchange theorists contend that the organization cannot be a party to the exchange with the employee in the employment relationship, but its agents who represent it can (Coyle-Shapiro & Conway, 2004; Coyle-Shapiro & Shore, 2007). Moreover, they have argued that employees can experience inconsistent or even contradictory treatment from different agents within an organization, owing to such matters as: internal organizational politics; the potential conflict of interest whereby middle managers are having to balance both their own employee status with that of their subordinates; and the nature of the interpersonal relationship between the employee and their immediate supervisor, the agent with whom the former is usually interacting most. Consequently, the above authors have suggested that future employment relationship study, whilst accepting that

dyadic exchange is still important, should consider multiple exchange relationships, in which the parties to the exchange are more clearly specified. This is because it is possible that an employee may hold simultaneous, but different, expectations of exchange relationships with multiple parties within an organization, for instance regarding team members, their line manager, and organizational management (Becker, Billings, Eveleth, & Gilbert, 1996; Rousseau, 1995). With respect to this, Shapiro and Shore (2007) have proposed that employee could assess their employment relationship according to the quality of exchange with their immediate manager, whose role is to implement the employment practices in accordance with the people and performance management process (Purcell & Hutchinson, 2007) and at the same time that with senior management, whose role is to provide the strategic decision on the HR systems (e.g. pay situation, career development, and employee participation approach).

Furthermore, Blau (1964: 257-263) also pointed out that the exchange can go beyond a one-to-one direct relationship (e.g. employee and organization/line manager/senior management) to a one-to-many relationship, which includes three or more people who are members of the same social group (e.g. team, department) indirectly participating in the exchange. By indirect exchange, he meant that exchange exists in a chain within the group, such that a person does another a favour and the first recipient of the benefit does the second person a favour and so on, with the possibility that eventually the original favour giver will also become a recipient. The key mechanism here is the social or group norms which individuals hold in the exchange (e.g. doing others a favour, in this case), in that conformity to the normative standards would earn the person social approval, whereas a public sanction could be the result if it were otherwise. This would indicate that indirect exchange is a one-to-many exchange relationship involving an exchange between the individual and the collective group, in which the act of reciprocation may not come from the recipient of the direct benefits and in which the group norms play a salient part in mediating the relationship.

Putting this into the organizational context, an employee who shares its values will help the organization in any way that supports its achievement. This can involve helping others in the unit on task- or personal-related problems so that they can perform, with the person providing the help not necessarily expecting direct reciprocation from the recipient, but the fact that the person who received the help can return to their work will furnish the giver with the assurance that obstacles to organizational success are being removed by their actions. However, although there is no direct reciprocation involved here, the effective line manager will probably acknowledge this act of goodwill through his/her social approval for the individual concerned. If this type of behaviour becomes institutionalized, then it will manifest itself as an informal rule that each individual employee bears in mind in terms of the exchange relations with their colleagues. It has been argued that accepting this notion of indirect exchange can benefit the study of organizational citizenship behaviours and business outcomes relationship (Flynn, 2005).

In sum, the predominant understanding of the employment relationship, to date, has been in terms of the dyadic exchange between the organization and employee, such that the former is treated as a single unified entity personified as having human qualities that allow it to engage in a reciprocating exchange process with the individual employee. However, this perspective has been criticized more recently by academics for failing to distinguish the roles of the different organizational agents in this process (Shapiro & Shore, 2007; Shapiro & Conway, 2004) and consequently, they have called for research to delineate these agents into more specific constituencies, particularly the senior manager and immediate supervisor. For by so doing, it will be possible to observe the different roles these agents play in influencing employee perceptions of organizational exchange.

#### **2.4.5 Summary**

Social exchange theory captures the mutuality in a reciprocal exchange relationship and this continuous reciprocal process can be disrupted should one of the parties perceive an imbalance in this exchange relation. The theory has been employed in the extant literature to explain the dyadic exchange in the organization (Shapiro & Conway, 2004), whereby the organization is seen as being a personified party by the employee in the employment exchange relationship. The underlying process is the norm of reciprocity (Gouldner 1960), through which a reciprocation based on the parties' felt obligation regarding the value of prior benefits. Moreover, the perceived valuation of benefits received can be attributed to the individual's disposition, cultural meaning of the exchange content, and the level of individual psychological investment in the other party (Blau, 1964, 1968; Gouldner, 1960). Further, the benefits from the economic exchange content are definite and quantifiable and therefore, both exchange parties understand their obligations in the exchange. By contrast, the social exchange content pertains to unspecified obligations, in both form and timing as to when these will be discharged and hence, both exchange parties require there to be trust that there will be reciprocation of the benefits received. Shapiro and Shore (2007) have contended that the unspecified obligatory nature of social exchange has been implicitly captured in employment relationship research, for example, such an exchange is seen to exist between HPWS and employee discretionary effort. In addition, the notion of ongoingness, which is the key feature of the psychological contract in which each party fulfills their promises to one another in repeated cycles (Rousseau, 1995), has been investigated in psychological contract breach research in association with the subsequent behavioural outcomes. Accordingly, it is posited that it would be appropriate to employ social exchange theory and adopt its underpinning concepts to facilitate understanding of the employer-employee exchange relationship in the HR-performance process. How the discussed concepts and theory can be operationalized in empirical practice is explained in the next section.

## 2.5 Linking Theory to Research Practice: HR-Performance

### Linkages through the Lens of Social Exchange

This research aims to explain HR-performance linkages through the lens of social exchange and in the previous sections the three main literatures of HR-performance linkages, psychological contract and social exchange theory have been presented to enrich understanding of the ongoing debates of relevance to this study. In this section, the way in which social exchange theory is applied to the HR-performance conceptual model developed in earlier sections, as summarized in figure 2-6, is explained and justified as follows.

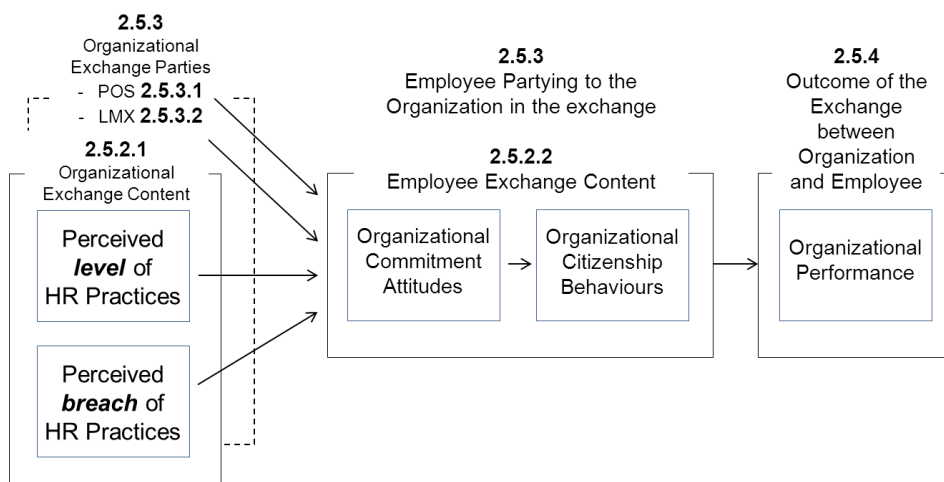


Figure 2-6 Matching Social Exchange Theory with the Proposed Conceptual Model

Note: 1. Dotted line box contains additional constructs which will be introduced in this section.

2. Subsection labels are added into the figure to help identify the location where the details related to each box can be found in this section.

First, the similarity regarding the employer-employee relationship in the HR process and that covered by Blau's definition of social exchange is discussed (subsection 2.5.1<sup>3</sup>). Next, the way in which the employer-employee exchange relationship can be operationalized, so as to reflect the HR-performance process, is illustrated in subsection 2.5.2.1-2, where, as shown in figure 2-6 organizational exchange content is taken as being the

<sup>3</sup> This subsection is explaining the similarity of social exchange and HR-performance relationship at the conceptual level and hence, it is not shown in the model.

HR contents (level/breach) offered to the employee (2.5.2.1), whilst employee discretion in the form of commitment attitudes and OCB are characterized as the employee exchange content (2.5.2.2).

In subsection 2.5.3, the exchange parties in the HR-performance process are discussed, with the organizational exchange parties being introduced into the conceptual framework (dotted line box in figure 2-6). This is because the quality of the organizational agents who are party to the exchange with the employee in the employment relationship can influence the value of benefits of HR practices through the way in which they deliver them (Blau, 1964). In this regard, perceived organizational support (POS: to be explained in subsection 2.5.3.1) and leader-member exchange (LMX: to be explained in subsection 2.5.3.2) are conceptualized as the quality of the exchange parties, which reflect, respectively, the employee perceptions of the quality of the senior management and the line manager party to the exchange in the HR-performance relationship. Last, in subsection 2.5.4, organizational performance is conceptualized as being influenced by the quality of the exchange relationship between the organization and the employee.

### **2.5.1 Unspecified Obligations of the Employer-Employee Exchange Relationship in the HR-Performance Process**

Shapiro and Shore (2007) have argued that the employer-employee exchange relationship is fundamentally based on social exchange, wherein the contents being exchanged between the organization and the employee are different in nature, but yield benefits of equivalent value, as perceived by the parties involved. That is, the exchange relationship involves favours that create diffuse obligations, which are left to the discretion of the other party. From the review of the literature regarding the organization- and employee-focused approach to employment relationship management (section 2.3), it has emerged that both the organization and employee implicitly hold to the other party's obligation in the exchange relationship.



That is, in the organization-focused approach, the organization expects that the employee will respond well to the provision of high performance work practices, by demonstrating their high discretionary efforts in support of the organization. From the other side, in the employee-focused approach, the employees, based on their understanding of the terms of exchange, perceive that the organization is obliged to deliver them some types of organizational support in return for their efforts and performance. However, the precise terms of the exchange content between the employee and the employer has never been made explicit.

Because there is a wide array of HR practices and some take longer than the others to take effect (e.g. job security vs. training), it is unlikely that an organization can specify a definite time frame, when a certain employment practice will be provided, nor can there be a clear description of the HR content being offered in the exchange. Similarly, from the employee side, they can express their discretion in many ways, but the precise nature of such behaviours cannot be made specific in the exchange agreement, because employees, when deciding on the content of the reciprocation, will take into account the prevailing circumstances and respond accordingly (Meyer & Herscovitch, 2001; Meyer, et al., 2002; Mowday, et al., 1982; Organ, et al., 2005; Podsakoff, et al., 2000). Therefore, it can be deduced that the exchange relationship between the employee and the employer is analogous with Blau's definition of social exchange, in which the unspecified obligations are embedded.

### **2.5.2 Exchange Content in the HR-Performance Process**

In this subsection it is shown how the concept of exchange content can be associated with the organizational inducements (HR practices) and employee contribution (affective commitment attitudes and organizational citizenship behaviours) in the HR-performance process. That is, the organizational provision of HR practices (level and breach) is conceptualized as the exchange content offered by the organization and

employee commitment attitudes and OCB are taken to be the basis of the exchange content from the employee side. Given the values of these exchange contents serve as proxies for the continuity of the reciprocal process (Blau, 1964) and the ‘employee’ is the focal interest in this research, the intention of this subsection is to discuss the two aspects of organizational content assessment made by the employees and how these can be linked with their level of reciprocation in the HR-performance process. Details of which are explained next in 2.5.2.1-2 (see figure 2-6).

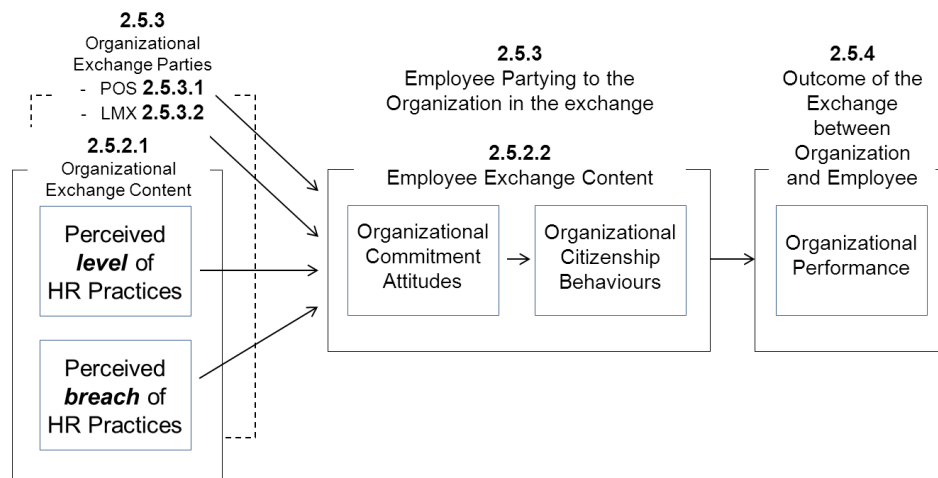


Figure 2-6 Matching Social Exchange Theory with the Proposed Conceptual Model

Note: 1. Dotted line box contains additional constructs which will be introduced in this section.  
 2. Subsection labels are added into the figure to help identify the location where the details related to each box can be found in this section.

### 2.5.2.1 Organizational Exchange Content

Ostroff and Bowen (2000: 233-5) explained that HR practices represent a form of exchange that the employer offers to the employee in return for their contribution to the organization. Such practices can include training and development, career opportunities, job security, participation, and pay, which are conceptualized in social exchange research as the organizational exchange content (ibid.). This is what the employee makes judgments about and subsequently responds to in terms of their level of employee commitment, organizational citizenship behaviours, in-role performance, and decisions on whether to quit/remain (Coyle-Shapiro & Kessler, 2000;

Coyle-Shapiro, 2002; Guest & Conway, 2002; Rousseau, 1990; Turnley & Feldman, 2000). Hannah and Iverson (2004: 339) have pointed out that because employees view HR content as the way in which the organization shows its commitment to them and its level of support in helping them to achieve their goals, when satisfied, the employees, in turn, reciprocate the organization in kind providing their efforts to help the organization achieve its goals.

Since the employee is the focal interest in the HR-performance causal chain of this research, it is important that their perceptions of the benefit values from the HR content that they have received are clearly understood. In this regard, the value of the benefits, as suggested in the social exchange theory, can vary according the societal or cultural context (Gouldner, 1960) in which the exchange takes place and in relation to the individual psychological investment in the exchange relationship (Blau, 1964). On reflection, it is possible that the employee could employ these two types of value assessment criteria simultaneously so as to inform their level of contribution. That is, the employee could categorize the benefits value into: 1) the degree to which the organizational inducements, in this case, HR practices, correspond to their social norms or their general expectations from the organization; and 2) the extent to which their delivery conforms to the employee's psychological investment, as manifested in their psychological contract with their current employer. In effect, these dual assessments of the value benefits, one based on the social values and the other on promissory contracts, could be helpful in explaining the variance in employee commitment responses in the HR-performance process, each of which are now considered in turn.

#### *Content Valuation Based on Promissory Contracts: Psychological Contract Breach*

Employees assess the value of promissory contracts based on the extent to which they perceive that the organization has fulfilled its obligation, as

expected in the terms of their psychological contract. That is, their sense of obligation and hence, their level of discretionary effort will be diminished if they perceived that the organization has failed to fulfill these contracts (Conway & Briner, 2005; Robinson, 1996; Robinson, et al., 1994; Robinson & Rousseau, 1994; Rousseau, 1995). This is because, breach perceptions involve: 1) a feeling of inequity, which suggests an imbalance in the calculated gains in the exchange; and 2) a feeling of betrayal and organizational mistrust, which lead to a loss of their psychological investment in the relationship (Rousseau, 1989).

Trust is a crucial element in the psychological contract and the social exchange relationship (Blau, 1964; Rousseau, 1989), in that a strong trust in another motivates one party to contribute or invest in the relationship, because s/he has high expectations of reciprocation in due course. By contrast, when an employee perceives there to have been a breach in the psychological contract, their trust in the organization declines and they will have less confidence in its actions regarding future exchange and thus, are inclined to reduce their effort in forging the relationship. In other words, the employee could have developed a feeling that organization is not committed to them and so in response, they are less committed to the organization (Eisenberger, et al., 1986).

#### *Content Valuation Based on Social Context: Perceived Level of HR Practices*

Employees can also assess HR practices based on the social values underpinning the society in which they reside. In this regard, the role of institutional arrangements and cultural values form the set of collective beliefs or social norms regarding general expectation between parties, such as life-time employment in return for employee loyalty in Japan. As a result, the organizational offer, in the form of HR practices, should respond to the rules and structures that hold in these specific environments (Jackson & Schuler, 1995). For example, Aycan (2005) found that performance-

based pay is more effective in high performance-oriented<sup>4</sup>, low fatalistic<sup>5</sup> and individualistic cultures, because employees in these societies tend to have a general perception that they are more in charge of their future success and hence, they should be rewarded based on the efforts they are making towards achieving their ambition. By contrast, group-based and non-economic rewards, such as affiliation and recognition, are valued more in collectivistic cultures, because a feeling of in-group belongingness is considered more important by employees than individual success. Furthermore, the empirical evidence has consistently supported the claim that individual performance-based pay is found to influence employee commitment attitude in individualistic societies, such as the UK and the USA (Black, 1999), whereas this application is not well received in the collectivistic societies, such as South Korea (Chang, 2006). In addition, a comparative study showed that the use of HR systems that addressed Japan's specific local preferences, such as: career-long training, problem-solving teams, and seniority-based compensation, was found to have a stronger effect on plant productivity than with regards to its US counterparts (Ichniowski & Shaw, 1999).

The high performance work systems, which have been developed in the US (Pfeffer, 1998), have been studied in the US context and this has provided support for the claim that they have a positive impact on organizational performance (Arthur, 1994; Delery & Doty, 1996; Huselid, 1995; MacDuffie, 1995; Youndt, et al., 1996). However, HPWS have also been successfully applied in countries (Taiwan, Korea, Singapore and Thailand) where the local culture is different from the US, with the link between HPWS and business financial performance having also been positively observed (Bae, Chen, David Wan, Lawler, & Walumbwa, 2003). A similar effect was also reported in Ireland, where a greater use of HPWS was seen to have the tendency of producing positive organizational outcomes, such as

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<sup>4</sup> Performance orientation is the extent to which an organization or society encourages and rewards group members for performance improvement and excellence (House et al., 1999: 192).

<sup>5</sup> Fatalism is the extent to which people in an organization or society believe that it is not possible to control, fully, the outcomes of one's actions (Alcan et al., 2000: 198).

lower rates of employee absenteeism and voluntary turnover (Guthrie, Flood, Liu, & MacCurtain, 2009), and likewise, similar results have been revealed in other places, including Spain (Martin-Tapia, Aragon-Correa, & Guthrie, 2009), Greece (Vlachos, 2008), and India (Chand, 2010).

Whilst many of these studies would appear to contradict the previously reported findings of local preferences in relation to HR practices, it is possible that they, as with the main stream in SHRM research, may have used informants other than the employees to inform the received practices in place (Wright & Boswell, 2002, Wright, et al., 2005; Boselie, et al., 2005). Nevertheless, the results of the previous research leave it inconclusive as to whether HPWS would be equally effective for any employee, regardless of their location. In this regard, it is possible that employees from different backgrounds and cultural settings would respond differently to the practices constituting HPWS and this distinction could result in some types of practice being more welcome in one society than another. In other words, employee felt obligation and commitment towards the organization may be influenced by the actual combination of HR practices, which can vary from one societal context to the other.

Synthesizing the above, the value benefits of HR content can be exploited if the appropriate choice of HR provision matches local preferences, but it can fail to materialize if the employee is dissatisfied with this content for reasons of societal culture and if the employee perceived that there has been a psychological contract breach in the employment relationship. Thus, it is logical to argue that one quality of HR content that can strengthen employee commitment response is that the employment practices should conform to the social values of the employees and that on implementation these should cause minimal discrepancy in the employee psychological contract terms. The ways in which these two pathways for assessing HR value benefits are used by employees are highly unpredictable and hence, this could explain why universal HPWS has had a varying impact on business performance across the studies, albeit that there has been a consistent reporting of their positive relationships (Becker & Huselid, 2006).

### **2.5.2.2 Employee Exchange Content: Affective Organizational Commitment and Organizational Citizenship Behaviours**

The research interest here is to understand the influence of HR practices on business results through the employee responses in the HR process, because it is they who are on the receiving end of the practices as well as being responsible for delivering performance outcomes. That is, the focus is on employee interpretations of the organizational offer (HR practices) and whether or not this stimulates their subsequent action to reciprocate or contribute in ways that support the achievement of organizational outcomes, in particular by their exhibiting organizational commitment attitudes and citizenship type behaviours. Recall that the main organizational interest, in relation to employee performance, is the employee discretion to further the goals of the organization and that such discretionary efforts and behaviours in the form of organizational commitment and OCB are not role prescribed, so consequently any employee reducing or withdrawing these cannot be, reasonably, subject to organizational punishment (Meyer & Herscovitch, 2001; Organ, 1988). Therefore, it would appear that an organization can only assess the level of employee discretion by measuring it in terms of the registered surplus in organizational performance over what is required in the formal job role.

### **2.5.3 Exchange Parties in the HR-Performance Process: Senior Management, Line Manager and Employee**

In the extension of the basic conceptual model, as shown in figure 2-4 (section 2.3), only the employer-employee exchange content and the organizational performance or the outcome of the exchange relationship have been included. However, since the value benefits of the exchange content, according to social exchange theory (Blau, 1964), could be attributed to the quality of the exchange parties, it becomes essential to incorporate into the investigation the organizational agents party to the exchange with the employee in the HR-performance relationship. With

regards to this, senior management and line manager are the two key agents that have been discussed in the literature as having strong influences on employee HR perceptions (Boxall & Purcell, 2008; Coyle-Shapiro & Shore, 2007; Purcell & Hutchinson, 2007). This is because, on the one hand, the senior management is responsible for the design or the choice of HR systems and on the other hand, the onus is on the line manager for ensuring that the HR enactment process leads to enhanced employee performance. In other words, the quality of these agents in devising the intended and enacted practices can have an impact on employee perceptions of the received practices.

Therefore, it is logical to argue that in the HR-performance relationship the employee can be party to an exchange with senior management, in that they associate management's decision on the deployment of people practices as the organizational intent on offer in exchange for their discretion. Whilst at the same time, the employee can also be party to an exchange with their supervisor because they associate the latter's decision on the allocation of HR practices as their trust in them that they will make a sufficient contribution to the organization. Hence, the value benefits of the HR content are assessed partly by the employee consideration of the quality of the organizational exchange parties responsible for the design and delivery of the HR contents. As such, the inclusion of the employee assessment on the quality of both the senior management and the line manager in the investigation will allow for more complete capturing of the interaction between the exchange content and the exchange parties and their cumulative influence on employee outcomes, than were one of these parties to be omitted. As a result, two more constructs which represent the quality of organizational exchange party in the HR process are added to this HR-performance conceptual model, these being perceived organizational support (POS: subsection 2.5.3.1 in figure 2-6) and leader-member exchange (LMX: subsection 2.5.3.2 in figure 2-6). Next, the focus of the discussion of these two concepts and their influence on the perceived value benefits of employment practices is briefly explicated. However, a more



extensive review of the literature related to these two concepts is reserved until chapter 4.

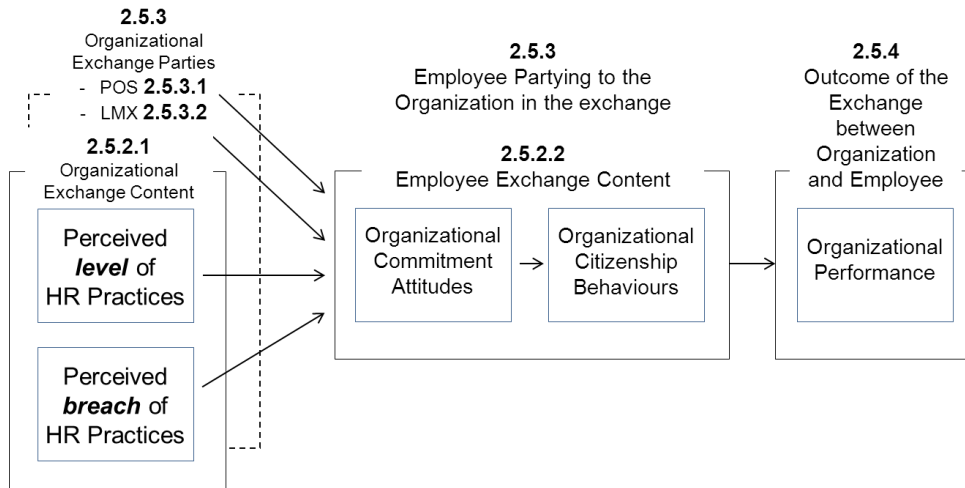


Figure 2-6 Matching Social Exchange Theory with the Proposed Conceptual Model

Note: 1. Dotted line box contains additional constructs which will be introduced in this section.  
2. Subsection labels are added into the figure to help identify the location where the details related to each box can be found in this section.

### 2.5.3.1 Perceived Organizational Support: Employee Reflection on the Quality Exchange Relationship between them and Senior Management

Eisenberger and colleagues proposed that management decisions on people practices can reflect the level of organization's commitment, care and support in meeting employees' socio-emotional needs, rewarding increased work effort and providing help in ensuring that they can carry out their jobs effectively, regarding which they conferred the umbrella title: perceived organizational support (POS) (Eisenberger, et al., 1986; Eisenberger, Jones, Aselage, & Sucharski, 2004). Based on the assumption that employees form a global belief that an organization should value their contributions and be concerned about their well-being, the authors advocated that the employees will increase work efforts based on the degree to which they perceive that the organization is committed to provide this care and

appreciation. Therefore, this affective process is conceived as an exchange between organization's commitment to the employees and employees' commitment to the organization.

The provision of HR practices, in particular, socio-emotional resources, such as: praise, pay increases, promotion, job security, and participation in decision making, are interpreted by the employee as symbolic of 'personalized' commitment to them by the organization (Hannah & Iverson, 2004: 339) and such an interpretation of employment practices has been empirically supported to be associated with POS (Allen, Shore, & Griffeth, 2003; Rhoades & Eisenberger, 2002; Wayne, Shore, & Liden, 1997). Furthermore, this view is supported by the previous discussion in subsection 2.4.4, regarding the role of senior management in commissioning the people practices system and thus it is reasonable to conjecture the HR practices are seen as emanating from organizational management in the eyes of the employees. In other words, positive people care practices are regarded by the employees as the organizational intention to take good care of them and they in turn, would like to take good care of the organization as a whole. Moreover, it is to be expected that the choice of employment practices that addresses employee needs and conforms to social values of the particular society in which a business operates, would bear even higher value benefits to the employee, thus resulting in an even stronger POS.

Turning to the influence of senior management on employee value assessment of promissory contracts, the management's decision to keep up with the stated employment practices over time can signal that it is committed to the employees, values their contribution, and intends to continue with the relationship (Aselage & Eisenberger, 2003). Consequently, with the management being seen to fulfill its obligations and to continue its favourable treatment towards its employees, this can enhance the development of perceived organizational support (Rhoades & Eisenberger, 2002). By contrast, when breach is reported due to the organization's unwillingness to meet its obligations, employees' perceptions of organizational support become undermined and this leaves them with an

intense feeling of betrayal by the management (Morrison & Robinson, 1997).

Therefore, a positive influence of senior management on the value benefits of the employment practices can be established through the decision to deploy HR initiatives that fit with employee preferences and by ensuring that the promises made to the employee are delivered. From this, it is logical to argue that employees attach the quality of senior management to their valuation of the organizational exchange content and that their perceived value benefits of the received practices, in terms of both HR level and psychological contract breach, are partially linked with their perceptions of organizational support. Several studies have confirmed the hypothesis that favourable work experiences, in the form of both HR level and breach or met expectation of psychological contract, are related to employee commitment, because they create conditions conducive to the perceptions of their being organizational support (Allen, et al., 2003; Coyle-Shapiro & Kessler, 2000; Coyle-Shapiro & Conway, 2005; Eisenberger, et al., 1986; Kiewitz, Restubog, Zagenczyk, & Hochwarter, 2009; Rhoades & Eisenberger, 2002; Rhoades, Eisenberger, & Armeli, 2001; Wayne, et al., 1997; Zagenczyk, Gibney, Kiewitz, & Restubog, 2009).

#### **2.5.3.2 Leader-Member Exchange: Employee Reflection on the Quality Exchange Relationship between them and the Line Manager**

Line managers are responsible for the HR practices enactment process at the local level and hence, their discretion regarding the use of HR practices to manage performance can impact on employee assessment of the organizational offer (Boxall & Purcell, 2008; Boxall, et al., 2007; Coyle-Shapiro & Shore, 2007; Purcell & Kinnie, 2007). Moreover, previous research has found support for the contention that under the same line manager there can be variations in employee perceptions of the

implemented HR practices (Bartel, 2004; Purcell & Hutchinson, 2007; Purcell, et al., 2003). One of the explanations for this is that organizational procedures cannot possibly cover every contingency that might arise (Zohar, 2000) and managers therefore, have to use a certain level of discretion in relation to their promises and delivery of HR practices, thus resulting in a non-uniformity in employee outcomes.

Graen and Scandura (1987) explained that leader-member exchange (LMX), the relationship-based approach to leadership, which characterizes that the strength of the exchange relationship between an employee and his/her supervisor can be the source of variations in HR perceptions. With respect to this, both parties tend to share greater resources and information at the personal and work levels once they get into a higher quality or 'mature' stage of exchange relationship, in which the line manager and staff share mutual trust, respect and admiration within the relationship (Graen & Uhl-Bien, 1991). Therefore, employees can have different LMX experiences, in terms of what is promised by line managers and what is actually delivered, depending on the level of maturity of the relationship, which can lead to some employees perceiving that there has been a psychological contract breach, whereas others who have a strong bond with the same line manager may not consider this to be so. Consequently, when employees under these circumstances perceive that they have been in receipt of varying levels HR value benefits from the supervisor, those with a positive outlook on the dyadic relationship with the latter will see the reciprocating relation as involving trust, whereas this would not be so for those with negative perceptions. Thus, it can be seen that the strength of the link between the employee perceptions of HR practices and subsequent performance is influenced by the relationships they have with the line manager. Taken together, this highlights the important role of the line manager as being another organizational party in the employment exchange relationship, in that their discretion in the HR practices enactment process can have a significant influence on employee valuation of the exchange benefits.

#### **2.5.4 Exchange Outcomes in the HR-Performance Process: Organizational Performance**

HR-performance research has been, in general, aimed at explaining variance in business performance, either from the choice of HR systems (best practices vs. best fit), or by considering how these practices influence employees regarding their willingness to support organizational goals. In this investigation, the latter stance is taken by adopting the social exchange lens so as to hypothesize the linkages between HR practices and business results. More specifically, under this theoretical perspective, it is taken that if an organization engages in satisfying its employees by delivering its high total value benefits as perceived in terms of the quality of the exchange content and the exchange parties, this will lead to employee reciprocal behaviours involving positive discretionary activities that further the overall goals of the organization. Thus, it is logical to argue that organizational performance is the outcome of the established exchange relationship between the organization and its members (see figure 2-6).

#### **2.5.5 Summary**

The exchange relationship between the employee and the organizational agents can be explained through the mechanisms described in social exchange theory. That is, the senior management is responsible for the affective process, because their decisions on the deployment of HR systems that serve employee socio-emotional needs can result in an improvement in employee's affective commitment to the organization. Whereas the line manager is responsible for framing the exchanges with the employees through their local discretion involved in the implementation or the relational process which can influence employee perceptions of HR practices resulting in variations in their commitment response. As such, the quality of these agents in the HR delivery exerts a marked influence on employee perceptions of the value benefits of the HR content.

Moreover, it has also been demonstrated that employee responses in the HR causal chain can be driven by the value benefits of the HR content through the psychological contract process wherein the employee assessment of the relevance of the content being received in relation to their social norms and perceived breach or met expectation of their psychological contract terms inform their discretion level to further the goals of the organization. Taken together, through these processes, the total assessment of HR value benefits resulting from the exchange content itself and the quality of the exchange parties can influence the level of employee obligation being felt towards the organization and hence, the subsequent degree of the discretionary efforts that are deployed in support of the organization achieving its goals. It is thus contended that the outcome of the exchange relationship between the employer and the employee is accountable for some of the variance in business results.

## **2.6 An Investigation into the HR-Performance Relationship in the Retail Banking Industry**

Wright and Gardner (2003), among others, have argued for a single entity or within-industry research focus, because this can provide a clearer picture of the mechanisms by which HR practices might create value. In particular, in this regard, an industry-focused study enables researchers to identify common performance metrics across participants and to control for the effect of different environments that would otherwise be diverse, owing to the different practices in relation to industry-specific mobilization of human resources (Gerhart, 2007b). Previous studies that have reported a positive relationship between HR practices and firm performance have been conducted in both cross-industry (e.g. Clinton & Guest, 2007; Huselid, 1995) and intra-industry environments, particularly in the manufacturing setting (e.g. Appelbaum et al., 2000; Arthur, 1994; Macduffie, 1995; Youndt et al., 1996). However, only a few studies of the service sector have been reported, to date (cf. Bartel, 2004; Batt, 2002; Delery & Doty, 1996; Sun, et al., 2007).

Indeed, the particular features of service organizations offer saliency when the research aims to observe employees' contributions to organizational performance (Bowen & Schneider, 1988; Gelade & Young, 2005; Haskett, Sasser Jr, & Schlesinger, 1997; Jones & Ricks, 1989 p.165; Zeithaml, Parasuraman, & Berry, 1990). This is because an employee's efforts and behaviours at the service point, i.e. when he/she interacts with the customer, can generate variations in customer responses, such as: customer satisfaction, loyalty and future buying attempts and a key factor that influences the levels of service quality and customer satisfaction in these circumstances is the employee's motivation to engage in discretionary effort (Mowday, et al., 1982). In other words, well-perceived service behaviours rooted in employee discretion can be a crucial factor for sustaining and expanding businesses in the service sector. Moreover, Batt (2000, 2007) noted that the service industry is the sector of the future, towards which the structure of employment has been shifting in recent decades and this reinforces the need to have more research on the experiences in the HR-performance linkages in these particular contexts, because effective people management could significantly enhance organizational outcomes. As a result, this research endeavour is focusing on the HR-performance relationship within a service type organization, namely a retail bank. To this end, first, a broad description of service organization and the importance of employee discretion in this context is discussed (subsection 2.6.1). Next, a narrower focus on the consumer service type organization is discussed (subsection 2.6.2), which is followed by the justification for taking the retail banking sector as the research environment for this study (subsection 2.6.3).

### **2.6.1 The Service Organization and Employee Discretion**

The distinct characteristic that differentiates service organizations from manufacturing firms is the high contact and interrelationship between production and consumption (Bowen & Schneider, 1988; Jones & Ricks, 1989). Regarding this interactivity, these researchers explained that service

work tasks tend to involve the consumer in both production and delivery as well as the services usually being produced and consumed simultaneously. Frenkel (2000) commented that it is during this interactive service delivery that frontline service employees convey the intangibles of information, knowledge, attitudes and emotion and Segal-Horn (1989: 136) described these service tasks as featuring high personal service content (the tasks that must be experienced as individualized and responsive), high labour content, and as being hard to routinize. By following up this particular type of interaction in a service-oriented environment, the importance of employee attitudes and behaviours during the service encounter and their impact on subsequent business outcomes can be revealed. That is, a clearer understanding of what motivates employees in these settings to do their best can provide insights into how to improve customer satisfaction levels with a company's products and services and hence, result in an improvement in business outcomes.

One of the challenges in this interactive service encounter is how to stimulate the employees' willingness to involve themselves with and to take responsibility for the organization, because this cannot be controlled directly by the organization (Zeithaml, et al., 1990). Rather, it is the employees' motivation to engage in discretionary effort that influences the level of service quality, satisfaction of customers, and customers' future acts (Bowen & Schneider, 1988; Gelade & Young, 2005; Haskett, et al., 1997; Koys, 2001; Mowday, et al., 1982; Zeithaml, et al., 1990). Conceptually, Haskett, et al. (1997) explained this through their service profit chain model, such that satisfied and motivated employees produce satisfied customers and these satisfied customers tend to purchase more, thus increasing the revenue and profits of the organization. Empirically, Gelade and Young (2005) reported that employee organizational commitment is related to the satisfaction level of the customers and sales achievement in retail bank branches. Koys (2001) showed a similar outcome in his study of a chain of restaurants, in that employee satisfaction and organizational citizenship behaviours were found to be related to customer satisfaction and restaurant profitability. Likewise, Bowen and Schneider (1988) presented that



customer's attitudes about service were aligned with employees' attitudes and their perceived HR practices.

The above conceptual discussions and research findings have revealed that employee discretion is the key driving force in the service environment. Recall that the overarching goal of the HR systems is to enhance employees' AMO, so that they become engaged in organizational activities, thus identifying with the organization and as a result, exert themselves more diligently towards business success (Lepak et al., 2006; Boxall & Purcell, 2008). In other words, HR provision plays a prominent role in the quality outcomes in the service sector and effectively managing these human resources is of particular importance to business performance (Mowday, et al., 1982).

#### **2.6.2 Consumer Service and the Implications of the Human Factor in the Performance Process**

Sasser, Wyckoff and Olsen (1978) pointed out that although the service sector is wide-ranging it can be roughly categorized into those organizations serving mass-market consumers, such as: retailing, banking and catering, and those providing professional services, such as: lawyers, consultants and doctors. These two types of service organization are different in important ways and hence, have different needs regarding employee contribution to the performance process. In particular, a consumer service organization tends to have multi-site operations providing standardized service products to serve local markets. Moreover, interactions between the employees and customers are high, but of small value per transaction and repeat sales are influenced by the quality that the service employees deliver. A professional service organization, by contrast, is likely to have a single centralized office or a few major offices serving local, regional, or national markets, providing a non-standard product. This requires employees with highly discretionary decision making skills and flexibility so as to deal with specialized customers' needs and it is the ability to customize the terms of the deal to

satisfy the customers that is the major source of customer loyalty and future buying in such organizations.

Human resources are one of the key contributors to organizational success in both types of service organization in spite of their quite different features regarding the nature of human interaction. Owing to the value-added that employee can contribute to the standardized products through their differential service delivery and that of the multi-location characteristic of this sector, the consumer service market environment is perhaps more appropriate for this research inquiry. In addition, HR-performance theorists have also suggested that HR-performance relationship research is best studied in a multi-site location environment, where the business operations allow for a certain degree of discretionary behaviours or flexibility of local management and in which HR-performance links can be more clearly observed at the business unit level (Gerhart, 2007b; Wright & Gardner, 2003). In particular, a multi-site operation allows for a complete capture of different qualities of HR implementation and hence, the variance in perceived practices and subsequent outcomes in the HR-performance process can be clearly observed across the business units.

### **2.6.3 Retail Banking Industry and Human Resource Management**

This research is focusing on the retail banking environment for a number of reasons. The first two reasons are related specifically to the retail bank products in that they are highly regulated and they require a long-term maintenance of service. The other two reasons are related to the specific nature of the operations in a multi-site setting which allows for capturing of a variation of how people practices are managed at the local level and observing how this impacts on unit performance. To start with, the nature of bank product related issues is expounded upon and this is followed by consideration of the multi-site setting features.

The high regulatory control of bank products, in many instances, restricts the product range that banks are allowed to provide (Gelade & Young, 2005). As a consequence, the quality of service delivery at the customer touch point becomes of paramount importance, in attracting customers and subsequently retaining their loyalty through maintaining satisfaction levels (Bowen & Schneider, 1988; Gelade & Young, 2005; Haskett, et al., 1997). This is especially the case in consumer financial services, where after-sales service and service warranties and agreements have become a major source of revenue in goods production (Batt, 2007).

Jones and Sasser (1995) argued that customers have a hierarchy of determinants of satisfaction. Initially, they are more interested in receiving the basic product/service they purchased. However, if there are several players in the market that provide similar basic products, particularly products that require long term after sales service, then their satisfaction level will be largely driven by the support services, such as: ease of interaction, clarity of written and verbal materials, quality of service, service speed and recovery. Put differently, this means providing that product value proposition across the banks is equally the same, customer contact at bank branches can offer the bank possibilities to expand their customer bases through enhancing the quality of the service encounter.

The interactions between frontline employees and customers can result in a unique experience during a service encounter that effectively engages the latter with the bank's ethos. That is, the employee motivation to engage with the customers during the service encounter is essential in engaging customer participation and subsequently maintaining loyalty on a long term basis. Drawing on the resource-based view of the firm, which states that a source of competitive advantage must be unique and difficult to replicate across firms (Barney, 1991), it is arguable that employees' discretion in the service encounter environment is likely to be a source of competitive advantage for employing organizations that operate in an environment with limited product differentiation.

Turning to the feature of multi-site businesses in the consumer service sector, researchers found that even though, usually, the deployment of HR systems is centralized at the corporate level, it is at the branch level that the intended practices are enacted by the branch manager and experienced by the employees (Bartel, 2004: 74-95; Nemeroff, 1990). The application of HR practices is often contingent on the branch manager's discretion in utilizing them effectively to motivate branch employees, so as to improve the quality of service (Nemeroff, 1990). Similarly, Bartel (2004) reported that the intended practices, as provided at the corporate level are only the guidelines, whereas the implementation is subject to individual manager's decisions on how to apply these practices, so that the employees have the right skills and attitudes to carry out these tasks purposefully.

Recall that HR practices are a type of management tool established to provide the employees with the necessary inputs to accomplish their roles and also to reinforce performance outcomes. However, because the enactment process is driven by the branch manager, the employees' experiences of the HR practices across branches may vary, thus resulting in different outcomes, both at the individual and branch levels. In this regard, previous research discovered that within a single company environment, where the products, organizational processes and employment practices are identical, the outcomes at branch level were different (Bartel, 2004; Bowen & Schneider, 1988; Gelade & Young, 2005; Nemeroff, 1990; Purcell, et al., 2003). Thus, it would appear that there is substantial evidence to support the contention that at the branch level employment experiences play a significant part in generating the quality of value-added service that customers expect to receive during the service encounter. In other words, the customers' decision to participate in or to continue using the services at the bank partly reflects the employees' contribution to the delivery process and hence, has an impact on overall branch performance.

In addition, the nature of the multi-site operations of retail banks, which entails some flexibility on behalf of local management, makes the bank branch an isolated unit accountable for meeting its business targets. It is

this feature that allows for a clearer observation of the HR-performance relations through the employees' experiences of the HR practices and their subsequent reactions, than would be the case otherwise. Moreover, very few empirical studies of HR-performance relations in the banking industry have been carried out at the branch or business unit level, with two exceptions being Bartel (2004) and Schneider and Bowen (1985) and the results of both confirmed that branch performance, i.e. service quality and sales, is positively associated with employees' perceptions of HR practices. These investigations, however, excluded the mediating stages of HR-performance links, thus resulting in only limited understanding of how perceived HR practices impact on individual level outcomes and how this, in turn, contributes to business level performance. Consequently, to date, it is still inconclusive that the 'human factor' plays a significant role in the HR-performance process in this particular consumer financial services environment and therefore the key aim of this research is to provide explanations for the linking mechanisms of employee perceptions of HR practices and individual outcomes in the HR-performance relationship at the retail bank branch level.

#### **2.6.4 Summary**

The unique attributes of the consumer service sector with the features of high contact and value-added contribution by employees to the standardized products in the consumer service and the specific characteristics of retail banking business, such as: highly regulated products, long-term service maintenance and local management at multi-site locations, represent the underlying environment chosen for this research. Moreover, it has been suggested that HR practices facilitate employee outcomes through the AMO framework of performance (Appelbaum, et al., 2000; Boxall & Purcell, 2008; Lepak, et al., 2006), and that based on the service-profit chain model (Gelade & Young, 2005; Haskett, et al., 1997) these affect the level of customer satisfaction, which in turn has an impact on business performance. Consequently, it is posited for this research that well-perceived HR practices

in retail banks can engender improved quality service interaction between frontline employees and customers, thereby helping them to expand their customer base as well as maintaining the existing accounts, thus securing the banks' future income stream.

## **2.7 Research Framework and Contribution to Knowledge**

This researcher has taken on board the key arguments put forward in previous literature and adopted the lens of social exchange to propose a multidisciplinary and multilevel HR-performance model, as presented in figure 1-1. With regard to this, the two main objectives for this study are: 1) to identify the process through which HR practices influence business results; and 2) to explain the variance in HR-performance relationship across business units. Put differently, in the social exchange terms, the aim is to explain variance in business performance by taking into account the quality of the exchange relationships between the employer and the employee in the HR-performance process. To operationalize this, both the quality of organizational exchange parties and the value benefits of the HR content are taken to represent the organizational total offer in exchange for the employee contribution in a form that supports organizational achievement. In other words, this research has incorporated different processes (psychological contract, relational and affective processes) that the employee could have experienced in the course of HR implementation to explain the HR-performance linkages. This would allow for the capturing of a more accurate description of the ways in which HR practices influence employee contribution in the HR-performance process.

Moreover, a stakeholder approach is taken up for the research, whereby reflections on HRM effectiveness are captured from both the employer and the employee perspectives. More specifically, the employer objective is captured by investigating the impact of HPWS on the economic performance of the firm, whereas employee concerns regarding their psychological well-being or relational objective (Paauwe & Boselie, 2007)

are taken into account by measuring their perceived breach of psychological contract. In addition, other key features of this research endeavour also include: assessing employee experiences of the exchange relationship, which shapes their response in the causal chain; and undertaking a multi-level analysis of the performance outcomes. By so doing, this research has responded to calls to unpack the HR black box by incorporating the employee psychological contract, social exchange framework and employee outcomes to explain the linkages between HR practices and business performance (Becker & Huselid, 2006; Wright & Boswell, 2002; Wright & Gardner, 2003; Boxall & Purcell 2008; Purcell & Kinnie, 2007; Boselie, et al. 2005; Wright & Nishii, 2004).

### 2.7.1 Research Framework

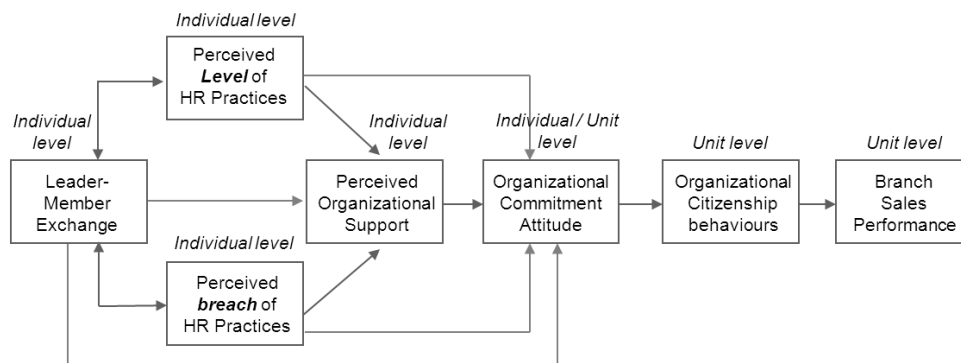


Figure 1-1 Multidisciplinary and Multilevel HR-Performance Research Framework

Figure 1-1 presents the complete conceptual framework of this research and the rationale for the hypothesized relationships, as shown in the figure, is explained below.

#### *HR Variation within the Organization and Key Influencers*

Wright and Nishii (2004) argued that discrepancy in the quality of HR practices can emerge through the implementation process, that is, the

perceived practices that employees actually receive can digress from what the intended practices are meant to be and that the source of this variation can be influenced by the quality of the organizational agents responsible for the HR implementation process. Consequently, employees, although sharing common HR systems, can have different experiences with and value assessment of the employment practices (Bartel, 2004, Purcell, et al., 2003, Purcell & Hutchinson, 2007; Wright & Nishii, 2004; Shapiro & Shore 2007). Therefore, the employee perspective of the organizational total offer in respect to the quality of the organizational exchange content (HR level/breach) and the quality of the organizational agents regarding their decisions on overarching people management practices and the enactment of these practices (POS/LMX) is considered. In effect, it is hypothesized that there is a direct influence from each of the variables constituting the organizational total offer, i.e. perceived level and breach of HR practices, POS and LMX, on employee commitment attitudes (figure 1-1).

#### *Influence of Senior Management*

Recall that the received practices are partially contingent upon the intended practices or the senior management decision regarding the overarching HR systems and their commitment to provide employee support and care. Consequently, it is possible that the employee could attribute their experiences with HR practices to the degree of organizational support (Nishii, et al., 2008), which in turn, influences their level of affective response to the organization. Researchers have found that the perceived HR level and the measures of psychological contract breach can both act as pathways to explain employee interpretation of organization support and its commitment to them, to which they reciprocate in the form of their discretionary effort or organizational commitment and performance (Coyle-Shapiro, 2002; Morrison, 1994; Robinson & Morrison, 1995; Zhao, et al., 2007; Allen, et al., 2003; Rhoades & Eisenberger, 2002; Rhoades, et al., 2001; Wayne, et al. 1997; Kiewit, et al., 2009). As a result, as shown in figure 1-1, employee perceptions of employment practices are hypothesized



to be associated with their conception of organizational support, which in turn, has an impact on their commitment attitudes.

### *Influence of Line Manager*

The relevant literature reveals that line managers who are responsible for implementing HR practices are the key influencers in any variance in delivery (Nishii & Wright, 2008; Purcell & Kinnie, 2007; Wright & Nishii, 2004). In particular, the strength of the relationship and level of mutual trust between them and the staff (LMX) can influence the way in which the former allocate and share resources among the employees (Shapiro & Shore, 2007; Graen & Uhl-Bien 1991, 1995; Purcell & Hutchinson, 2007). Since the value of the received benefits cannot be detached from its source (Blau, 1964), the employee perceptions of the received practices enacted by their line manager can also be reflected in terms of both their assessment on the value of the HR content itself and the perceived quality of the supervisor in the delivery.

In this regard, the relational process is established as being a continuous loop between the supervisory quality and employee perceptions of the employment practices, because, as with the dyadic relationship, LMX, being able to reinforce employee perceptions of the employment practices, in turn, employee assessment of the received practices can also form their opinion regarding their relationship with the supervisor, which can be both favourable or unfavourable by nature. Thus, this leader-member exchange is proposed as having a confounding effect with both perceived HR level and psychological contract breach on the resulting outcomes in the research framework (see non-directional links between LMX, perceived HR level and breach in figure 1-1).

Moreover, based on Levinson's (1965) argument regarding the issue of transference of HR implementation responsibility from the organization to its agent, it is possible that the employee also uses transference by seeing

the LMX activities undertaken by the line managers as, to some extent, indicating the level of organization support, i.e. POS. This line of reasoning justifies the direct link from LMX to POS in figure 1-1.

### *Individual-Organizational Performance Linkage*

Substantial evidence has revealed that employee outcomes, such as affective attitudes and citizenship type behaviours, can account for aggregate performance at the business unit level (Mathieu & Zajac, 1990; Meyer, et al., 2002; Organ, et al., 2005). This sort of effect is particularly important in service type organizations, where the quality of performance is less tangible, and the interaction between the frontline employees and the customers during the service encounter can influence levels of customer satisfaction and consequently, their decision to participate as well as, subsequently, whether to continue their relationship with the organization (Gelade & Young, 2005; Haskett et al., 1997; Mowday et al., 1982: 206; Schneider & Bowen, 1985). Therefore, it is posited that the linkages between employee and unit level performance can be captured by associating aggregated individual commitment data with OCB, thereby eliciting how these can impact on sales performance at the bank branch level, as shown in figure 1-1.

### **2.7.2 Research Questions**

Based on the above research objectives and the proposed research framework, the following research questions (RQs) are put forward, with RQ1 being the principal research question and RQs 2-5 being the subsidiary ones. The associations of these research questions with the research framework are presented in figure 2-7.

### *Principal research question*

1. How does the use of a social exchange perspective inform our understanding of the HR-performance processes in retail bank branches?

### *Subsidiary research questions*

2. What is the relationship between employee commitment and the two types of exchange content, i.e. perceived level of HR practices and psychological contract breach?
3. What is the relationship between employee commitment and the quality of exchange parties, i.e. LMX and POS?
4. What is the relationship between the quality of exchange parties, i.e. LMX and POS and the exchange content, i.e. perceived level of HR practices and psychological contract breach found in the HR-performance process?
5. What is the relationship between individual level outcomes and business performance?

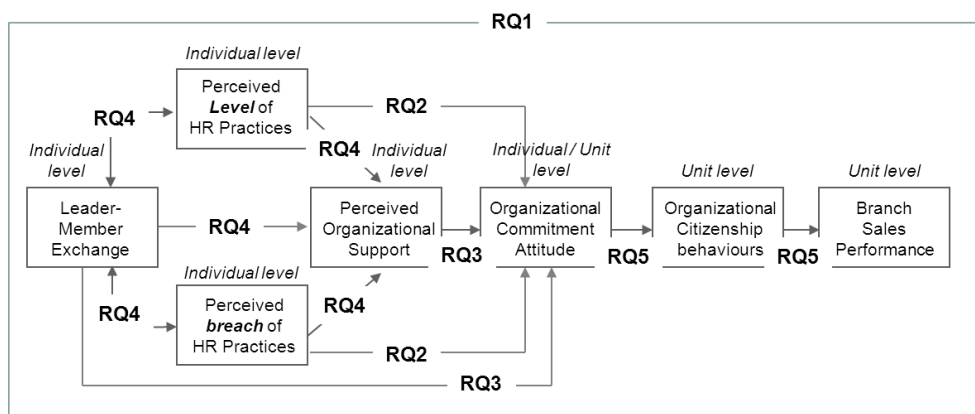


Figure 2-7 The Associations of the Research Questions with the Proposed Research Framework

### **2.7.3 Research Contributions**

This research contributes to strategic human resource management literature in several ways. First, although there has been considerable research into the link between HR practices and firm performance (Appelbaum, et al., 2000; Becker & Huselid, 1998; Huselid, 1995; Purcell, et al., 2003; Wright, et al., 2003), this stream has not typically focused on employees' experiences of HR practices in the psychological contract framework, in spite of other research focusing on psychological contracts and employee attitudes and behaviours having provided considerable evidence of its importance (Coyle-Shapiro & Kessler, 2000; Coyle-Shapiro, 2002; Guest & Conway, 2004; Lester, Turnley, Bloodgood, & Bolino, 2002; Robinson, 1996; Robinson & Morrison, 1995; Turnley & Feldman, 1999). Therefore, by drawing these two strands of enquiry together, that is, considering the mechanism of employee psychological contract breach in the context of the HR-performance process, this research will enhance understanding regarding behaviours and attitudes to be expected from the employees under different HR delivery circumstances, thus improving the effectiveness of human resource management. Further, HR 'black box' researchers have emphasized that the application of micro-level theories focusing on individual psychology, i.e. psychological contracts will lead to a better understanding of HR-performance linkages, thereby extending the field's theoretical development (Boselie, et al., 2005; Boxall, et al., 2007; Purcell & Kinnie, 2007; Wright & Boswell, 2002; Wright & Gardner, 2003). In sum, this research, by integrating the psychological contract with the HR-performance linkages, is among the first to outline and test systematically the impact of psychological contract breach on the HR-performance relationship.

Second, although previous research has employed social exchange theory to explain the associations between employee outcomes and some combinations of the constructs constituting the total organizational offer put forward by this researcher, i.e. perceived HR level, psychological contract breach, POS and LMX (Coyle-Shapiro & Kessler, 2000; Coyle-Shapiro,

2002; Kiewitz, et al., 2009; Lambert, 2000; Malhotra, et al., 2007; Rhoades, et al., 2001; Robinson, 1996; Settoon, Bennett, & Liden, 1996; Wayne, et al., 1997), none of these studies has included these four constructs in combination nor conceptualized them in the context of HR implementation. Consequently, it is contended that a consideration of employee perceptions of the total organizational offer that incorporates both the quality of HR content (HR level/breach) and the quality of organizational agents in the HR delivery (POS/LMX), will elicit new insights into why the same set of HR practices can result in a variance in employee outcomes and subsequently, that regarding the business results. More specifically, by adopting social exchange theory to explain the mechanisms underpinning the exchange relationships involved in HR implementation, this research is aimed at providing a theoretical explanation for HR-performance variance within the firm that addresses the oft raised criticism of there being a lack of robust understanding of the HR performance relationship (Guest, 1997, 2011; Hesketh & Fleetwood, 2006; Wright & Gardner, 2003).

Third, this research endeavour contributes to the ongoing quest to explain the nature of individual outcomes in the HR-performance links, particularly in relation to the sequential effects of attitudinal and behavioural outcomes in the chain (Becker & Huselid, 2006; Boselie, et al., 2005; Purcell & Kinnie, 2007; Wall & Wood, 2005; Wood, 1999; Wright & Boswell, 2002; Wright & Gardner, 2003). In this regard, a few research projects have partially investigated these effects by conceptualizing either the employee attitudes or behavioural outcomes to explain HR-performance relations (Bartel, 2004; Gelade & Ivery, 2003; Purcell, et al., 2003; Sun, et al., 2007; Wright, et al., 2003). Hence, the evidence regarding the association of employee attitudes with behavioural outcomes to attain the organizational gain has not been well scrutinized. Purcell and Kinnie (2007) explained that it is the employee behaviours that have a direct impact on business results and the strength of which is driven by the employee attitudes. They further suggested that employee outcomes should be identified as a two-staged modeling of sequential effect of attitudes and behaviours relationship, if research is aimed at enhancing understanding of the

mechanism underpinning the HR-performance process. Therefore, the serial effect of HR practices on employee attitudinal, behavioural outcomes and subsequently business unit performance is incorporated in this investigation to improve understanding of the HR-performance relationships.

Fourth, here a multi-level analysis of HR-performance relationship is employed in a single study and regarding this, Boselie, et al. (2005) found that, to date, only seven studies from a total of 104 research projects in HR-performance relations have adopted such an approach. Consequently, it is contended that this multi-level HR-performance relation research will further the development of multi-level conceptual and theoretical modeling in HRM studies (Becker & Huselid, 1998, 2006; Ostroff & Bowen, 2000; Wright & Boswell, 2002; Wright & Gardner, 2003).

Fifth, with branch network within one large retail bank being the subject of this investigation and the performance measurement of interest being that at the business unit level, this removes the 'noise' that is present when comparing the effectiveness of HR practices across companies or industries (Gerhart, 2007b; Gerhart, et al., 2000). Therefore, the empirical results from this chosen setting, through this novel approach, will provide a clearer picture, regarding the mechanism by which the HR practices might create value (Becker & Gerhart, 1996; Becker & Huselid, 2006; Delery, 1998).

Finally, this study contributes further evidence from an under-researched location, Thailand, in particular in the research area of strategic human resource management. This also enhances understandings of the fit of the existing theories because of it being a non-Western country.

## Chapter 3

### Research Methodology

This chapter describes the way in which this study was operationalized so as to answer the research inquiries set out in chapter 2 (see figure 2-7). This researcher takes a positivist paradigm, whereby a deductive approach and a quantitative research strategy are adopted to guide the design of the research and the methods for data collection. Survey research was employed through a self-completion questionnaire to collect data from customer contact employees working in a bank branch network in Thailand. In the following sections, explanations are given regarding the chosen research paradigm, research strategy, research design and methods, research environment i.e. the Thai banking sector and the participating organization, logistics of the data collection, operationalization of the survey measures and analytical strategy.

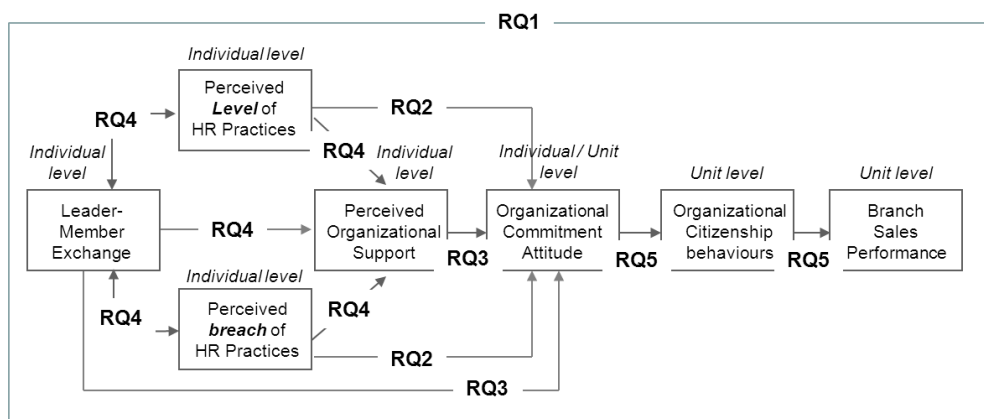


Figure 2-7 The Associations of the Research Questions with the Proposed Research Framework

### 3.1 Research Paradigm

Denzin and Lincoln (2003), amongst others, have claimed that all research is guided by a set of beliefs and feelings about the world that determine

what the inquiry is and how the research is practised. These references form a paradigm, an interpretive framework, or a 'basic set of beliefs that guide action' (Guba, 1990: 17). In other words, the chosen paradigm has influence over the researchers regarding what should be studied, how research should be done, and how results should be interpreted (Bryman & Bell, 2007). The three main principles of paradigm distinctiveness are the stance towards reality (ontology), the relationship between the researcher and what is being researched (epistemology) and lastly, the research process for gathering knowledge about the world (methodology).

### **3.1.1 Positivism and Social Constructionism**

Discussions related to the research paradigm begin with two contrasting traditional philosophical positions, positivism and social constructionism (Bryman, 2004; Easterby-Smith, Thorpe, & Lowe, 2002; Guba, 1990; Lincoln & Guba, 2003). Under the positivist paradigm, it is assumed that there is a reality out there to be studied, captured and understood. That is, ontologically, the reality of positivistic research is external and objective, whilst the epistemological assumption of the positivist researcher is that 'knowledge is only of significance if it is based on observations of this external reality' (Easterby-Smith, et al., 2002: 28). Put differently, the positivistic researcher assumes the role of an objective analyst, making detached interpretations about the data independent of informants. Thus, a deductive approach to measure the concepts being studied by quantitative data is emphasized and verification of hypotheses are subjected to empirical tests, in order to prove or disprove the proposition under carefully controlled conditions (Bryman, 2004; Easterby-Smith, et al., 2002; Guba, 1990; Lincoln & Guba, 2003).

In contrast, the ontological assumption subsumed in social constructionism is that 'reality is not objective and exterior, but is socially constructed and given meaning by people' (Easterby-Smith, et al., 2002: 29). Thus, epistemologically, the social reality within this paradigm is determined by



the social actors rather than objective and external factors. In other words, exponents of the constructivist paradigm assume that there are multiple realities, which are dependent for their form and content on the persons who hold them. Thus, the inductive approach to understanding what the actors are thinking and feeling regarding the research focus is emphasized. That is, the researchers undertaking work in the social constructivist paradigm engage in different forms of participative enquiry to grasp the subjective meanings of social actions, because it is taken that the complex qualities of the human mind or the known can be unpacked through these processes (Bryman, 2004; Easterby-Smith, et al., 2002; Guba, 1990; Lincoln & Guba, 2003). The researchers therefore, are part of what is being studied and the interpretations of the observations emerge from the actors themselves.

### **3.1.2 The Positivistic Paradigm Research and Research Strategy**

Guba (1990) advised that the positivism and social constructionism paradigms are not in competition with each other, but rather offer their specific characteristics to research and that the choice of the research paradigm should pertain to the questions that are to be studied. That is, a proof of the proposition and generalizations are attributed to positivistic paradigm research and an explanation of how and why the relationships are developed and evolved, are generated from the constructivism paradigm, and as such, both are valid forms of enquiry. To address the research questions in this study, rather than investigating the subjective meaning of emerging inter-relationships among variables, a positivistic paradigm was assumed so as to undertake a deductive approach to test the hypothesized relationships underlying the linkages between employment practices and business sales performance. Accordingly, a quantitative research strategy was adopted, thus providing a way of quantitatively linking theoretical categories or concepts with empirical research and thereby taking an objectivist standpoint for testing theory (Bryman & Bell, 2007). In this way, the findings with regards to the research questions in this study address the objective reality or the pattern of HR-performance relationships existing

in the participating organization. The research design adopted for this study is explained next.

## **3.2 Research Design**

### **3.2.1 The Survey Research**

The ontological and epistemological considerations, as well as the decision regarding the research strategy, as explained in the previous section, influence the design of research, which subsequently provides a framework for the collection and analysis of data in ways that are most suited to achieving the research aims of a particular study. Several research designs have been identified as being appropriate for use in quantitative research, including: experimental design, survey research and the case study (Bryman & Bell, 2007; Easterby-Smith, et al., 2002) and each of these is discussed below.

The purpose of experimental design research is to examine the experimental manipulation of an independent variable by comparing two samples, one receiving the treatment (the experimental group) and the other not receiving the treatment (the control). The dependent variable is measured before and after the experimental manipulation and any difference found between the two groups is attributed to manipulation of the independent variable. The presence of a control, coupled with a random process of assignment to the experimental and control groups enhances the internal validity of the research so that conclusions regarding a causal relation existing between the independent and dependent variables can be drawn more confidently. In addition, experimental design is most appropriate when a test of single or few treatments are applied in the manipulation process, regarding the independent variables, in order to elicit the link between this treatment/s and the dependent variable. In relation to this current study, the research framework is based on a causal modelling process (Van de Van, 2007: 171) in which a range of HR practices was hypothesized to have an impact on

business sales performance through a series of the employee perceptions of organizational support and their attitudinal and behavioural responses. Thus, the experimental approach appeared not to offer an effective choice of research design for application in this investigation.

Survey research is widely used in social science study (Bryman, 2004). It is a non-experimental research design (Robson, 2002) and its successful use is dependent on a highly structured approach to data gathering. Further, it works best if the researcher knows what kind of information is needed in order to provide explanations regarding the phenomena of interest and if the provisional questions can be standardized so as to assure that the questions convey the same meaning for the different respondents (Bryman, 2004; Robson, 2002). Thus, consistency in terms of the reliability of the measure, and measurement validity, that is, whether or not the measure that has been devised for a concept really does reflect the concept that it is supposed to be denoting, are key challenges for the researcher when drawing any conclusions from the study (Bryman, 2004; Bryman & Bell, 2007). With regards to this, researchers need to have a clear understanding of the measurements associated with the issues of interest and are advised to choose well-tested measures to improve the measure validity. Furthermore, carrying out a pilot survey, gaining access to a large sample size in relation to the target population and deploying an appropriate sampling method, are crucial for improving the stability of the measure (Bryman & Bell, 2007) and for raising the levels of confidence with which the researcher can generalize study outcomes to a wider population.

The category survey research can be divided further into cross-sectional and longitudinal designs, with the former referring to a survey in which the collection of all the data in connection with the study occurs at a single point in time, whereas the latter involves a process whereby the sample is surveyed and then surveyed again on at least one further occasion (Bryman & Bell, 2007). Consequently, using cross-sectional survey data it is only possible to examine the pattern of association among the studied variables,

whereas extending the research to make the data longitudinal allows for observation of changes and causal influences regarding the variables over time.

Turning to the case study design, Bryman and Bell (2007) explained that the case study approach to quantitative research strategy is similar to survey research, but differs in its focus. With the case study, the case, either in the form of an organization, event, people or location, is the object of interest and researchers taking this approach normally aim to provide an in-depth illustration of the unique features of the case so as to address the research questions, whereas the main focus of the survey research approach is to examine the pattern or causal relationships of the study variables (*ibid.*).

To this end, it was not the objective of this study to explain the unique features of the retail banking branches that were the setting for the HR-performance investigation. Rather, the aim was to investigate the HR-performance linkages using a sample taken from a retail banking business (to be explained in subsection 3.3.1) and thus, this researcher deemed it most appropriate to adopt the survey research design instead of focussing on the case study approach for the study. In doing this, the researcher remained aware of the potential drawbacks of taking this approach, particularly regarding the reliability and validity of the measures. However, most of the concepts referred to in this study have well established measures that have been studied in previous research (to be explained subsection 3.3.3), so many potential issues regarding the validity of these could be ruled out. Furthermore, to ensure the robust reliability of the measures in the current study, a pilot test was conducted (to be explained subsection 3.3.3) and the data collection procedures were carefully organized to encourage a high response rate (to be explained in subsection 3.3.2).

### **3.2.2 Units of Analysis**

As shown in figure 2-7, this research was set out to investigate the relationships between employment practices, employee outcomes and business sales performance, such that HR practices are hypothesized to impact on employee outcomes and that these subsequently have an effect on business sales performance. Because there are two research foci, namely the individual and branch levels, it was deemed appropriate to adopt these levels as the two units of analysis. With regards to the individual level of analysis, the aim was to explore the relationship between the organizational exchange content, i.e. HR level and breach, organizational exchange parties, i.e. POS and LMX, and employee commitment responses. A cross-sectional design research was adopted, in which the respondents were asked to rate all the question items related to these constructs at one particular point in time. At the organizational level of analysis, the literature has proposed that OCB, when aggregated in terms of people and over time, has a positive effect on business outcomes (Organ, 1988, 1990; Organ, et al., 2005; Podsakoff, et al., 2000) and thus the researcher expected to see a causal relation in which a branch's OCB predicts future branch sales performance. To explore this, a cross-lagged design research was applied at the branch level in that the measure of branch sales performance was examined 12 months after the team's OCB had been assessed. The operationalization of the measures used in the study is explained in detail in subsection 3.3.3.

### **3.2.3 Research Techniques: The Self-Completion Questionnaire Survey**

In this section, an account is given of the decisions regarding which data collection techniques were selected as being the most appropriate for this research endeavour. In brief, self-completion questionnaire surveys and interview-based surveys are the two techniques that have been widely used for carrying out survey research (Bryman & Bell, 2007; Czaja & Blair, 1996; Robson, 2002). The stark difference between these two techniques

lie in the fact that with a self-completion questionnaire respondents answer the questions by completing the questionnaire themselves, whereas for the other type, an interviewer asks the respondents the questions and records their answers and this is usually conducted through either face-to-face or phone interviews. Both techniques have advantages and disadvantages which are considered next.

First, the cost of administering the self-completion questionnaire is much cheaper as compared to an interview-based survey. Typically, the self-completion questionnaire entails sending to the respondents, usually by post, the questionnaire, a well-constructed cover letter and a stamped return envelope. By contrast, the second type of survey can involve far more time and costs of travel for the interviewer(s) carrying out face-to-face interviews, or hefty charges for lengthy telephone calls. Second, the length of time needed to conduct a postal survey is fairly consistent, usually taking eight to ten weeks, regardless of the sample size and the geographic locations covered (Robson, 2002), whereas regarding the interviewing technique, the length of time necessary to complete a project varies according to the sample size and the respondents' locations. The reasons for the time differences between these two techniques relate to the fact that researchers can send out a thousand envelopes containing questionnaires in one batch and wait for the responses to be returned, but it would take much longer to conduct a thousand interviews, even if several interviewers were employed for the task. Third, the self-completion questionnaire is considered to be more convenient for the respondents to handle, because they can complete it whenever and at whatever speed they wish.

Fourth, the impacts that the presence of an interviewer may have are an important consideration when deciding which technique to adopt. The absence of an interviewer in the self-administered questionnaire means that there is no possibility of elaborating, probing or clarifying matters if the respondents experience difficulty answering some questions. As a result, they could skip certain questions, or at worst, may decide not to participate in the survey at all. In contrast, this sort of problem can be alleviated should

an interview-based questionnaire be conducted. However, the presence of the interviewer can potentially lead to problems of response bias, which can be associated with the personal characteristics of the interviewer such as: ethnicity, gender and social background (Bryman & Bell, 2007; Robson, 2002). Moreover, when several interviewers are employed, their varying skills and levels of experience can result in inconsistent quality in terms of the responses. Last, researchers are likely to obtain a much lower response rate from a self-completion questionnaire than from a comparable interview-based survey. This has been identified as the greatest disadvantage associated with the former kind of survey (Bryman & Bell, 2007) and could be attributed to the questionnaire being too long, looking complex and difficult to complete, or simply, not appealing to the respondents.

With regards to the current study, given the large sample size of 2,592 customer contact employees located in geographically dispersed locations across the country of Thailand (subsection 3.3.2), the self-completion questionnaire survey was considered to be more effective in terms of both costs and time than interview-based surveying. Further, the technique provided a relatively low response bias, because it did not involve a third party (i.e. the interviewer) administering the questionnaire, but nevertheless the potential problem of a low response rate still had to be managed. To address this, guidance on how to improve response rates to postal questionnaires (Bryman & Bell, 2007; Czaja & Blair, 1996; Robson, 2002) was adopted, which included: 1) sending respondents a self-explanatory cover letter detailing the objectives of the research, why it was important, when and how to return the completed questionnaire, assurances of confidentiality, and a contact number in case they had any questions; 2) providing a stamped addressed envelope for the return of the survey; 3) setting out clear instructions and using a professional questionnaire layout; and 4) using a follow-up call or letter to reinforce participation. All these activities, termed the survey administration, are explained next in the research methods section.

### **3.3 Research Methods**

This section describes the way in which this research was operationalized. First, the choice of using the Thai retail banking sector as the backdrop for this research is justified (subsection 3.3.1). This is followed by a description of the participating organization, sample, questionnaire translation process and logistics in relation to disseminating the questionnaire packages and collecting the returned surveys (subsection 3.3.2). Finally, the operationalization of the study measures used for this study is discussed (subsection 3.3.3).

#### **3.3.1 Research Setting: Thai Retail Banking Sector**

In chapter 2, the specific characteristics of the consumer financial service sector were described and the significance of the human factor in business value creation was demonstrated. Further to this, it should be noted that additional specific features of the Thai banking industry made it suitable as the location for this investigation. In brief, in this regard, the business landscape of the Thai banking sector has changed dramatically in the last two decades, which has involved a shift of its business to focussing on retail banking customers, customer service strategy, cross-products selling and investment in new information technology (Chudasri, 2004; Crispin & Tasker, 2000; Polsiri & Wiwattanakantang, 2005). Such changes have impacted greatly on the role of branch customer contact employees who are expected to deliver service quality and to increase sales. Nowadays, HR practices, such as: training, pay for performance and empowerment are more commonly found in the sector and these have been introduced in order to ensure employees are well equipped for meeting the changing demands in the business (Bae, et al., 2003). This shift of focus from a product to a service driven strategy, whereby employees have come to play an increasingly important role in mobilizing business gains, presents an ideal research setting for eliciting more clearly the linkages between HR practices, employee contribution and the business outcomes. Moreover, to



date, none of the extant research in the field has studied the HR-performance links in the Thai context and hence, undertaking the enquiry in the Thai retail bank environment provided the opportunity to make a novel contribution to the current HR-performance literature. Below is a review of the nature of the Thai banking industry that provides useful background information in support of the research.

Thailand was the first country to suffer from the 1997 Asian financial crisis, with the Thai commercial banks taking centre stage in the nation's economic collapse. Adverse impacts on the entire workforce of the country came as the result of stringent business reforms, such as cost-cutting and internal restructuring, that were common amongst companies affected by the crisis (Chudasri, 2004). A doubling of the unemployment rate was reported during the year 1997-1998. The crisis also marked a changed playing field for the banking sector in Thailand, as many bad loans surfaced and forced a number of banks into bankruptcy. Out of 15 banks operating in 1996, one was closed down, three were merged with government-owned banks, two were taken over by the government, three became foreign-owned, and the remaining six survived by recapitalizing themselves (Polsiri & Wiwattanakantang, 2005). It was not until comparatively recently that business picked up and Thailand regained its prosperity with a stable exchange rate, comfortable levels of foreign reserves and an average of 5% economic growth per annum. As a consequence of these improvements in her economic fortunes, the country is currently placed amongst the top development hotspots of the Asian developing countries (Euromoney, 2006).

During the crisis, a series of regulatory reforms and financial innovations catalysed reorganization of the Thai banking industry. Moreover, the rapid introduction of new information technology dramatically altered the handling and processing of individual transactions and the servicing of accounts (Chudasri, 2004; Crispin & Tasker, 2000). These changes in the Thai banks' competitive environment led to a great change in the operations at branch office level and, in particular, for customer interfaced employees.

Most of the banks shifted their focus from corporate business channels to consumer loans, loans to small and medium enterprises (SMEs) and non-interest income sources, especially fee and commission-based incomes. In terms of sales and services, the banks have moved into the areas of cross-selling and building a customer-centric architecture, both of which were rarely observed before the crisis (Crispin & Tasker, 2000). One example of this is the 'human touch' scheme at the point of customer service, which has proved important in consumer banking business areas since the reforms. In addition, several banks have adopted a customer relation management (CRM) platform to serve the specific needs of the different customer segmentation. Furthermore, it is now common to find the transformation from passive bank tellers into proactive customer-focused representatives with additional sales activities added to their roles, with the banks providing their employees with appropriate skills and building their motivation to strengthen their engagement level with the banks' objectives and goals (Bae, et al., 2003). Therefore, apart from Thailand representing a novel research setting, the situation in the Thai retail banking sector presents the opportunity for the outcomes from this study to inform both academics and businesses about the ways in which HR practices and hence, human factors can play a role that supports business success.

### **3.3.2 Participating Organization, Sample and Procedures**

As previously outlined, the aim in this research was to explain the impacts of variations in perceived HR practices upon business performance and many researchers have contended that an investigation of this nature should take place within the context of a single company, because the employment practices, leadership, basic products and services, operations, as well as the performance measurements and criteria are, generally, invariable across work units (Becker & Huselid, 2006; Gerhart, 2007b; Wright, Gardner, Moynihan, & Allen, 2005). Gerhart, et al. (2000) further noted that the HR-performance variability within a company should be observed at the establishment level, that is, in the present case at the bank branch level,

because it is likely that the employees working at this level are not very diverse and hence, the employment practices provided for them is more or less identical.

Moreover, Lepak and Snell (1999) pointed out that organizations may provide different HR systems for different employee groups according to their strategic value to the business and thus focussing research on a distinct and relatively homogeneous category of employee should be emphasized (Clinton & Guest, 2007; Delery & Doty, 1996). This focus is particularly important when employee reports of HR practices are aggregated to the work unit level, because it can affect the level of inter-reliability of HR practices. As exemplified by Delery and Doty (1996) and MacDuffie (1995) employing a specific job group in HR-performance research has proved useful in efforts to describe such relationships, although much of the previous macro level research has largely ignored this issue (Wright & Boswell, 2002).

Taken together, the above suggests that HR-performance research should be conducted within a single company with a narrow focus on the HR implications regarding a specific job group working at the establishment, or bank branch level in this case. This would rule out externalities and allow for the focus being on the variation of HR implementation within the company, thereby eliciting a clearer understanding regarding differential HR outcomes across different branches (Nishii & Wright, 2008). Consequently, to control for noises that could have arisen had the research been conducted across several companies or industries, this study was carried out within one single bank, focussing on operations at the branch level. The target respondents were employees with customer contact roles, because, in reality, this role comprises the core job group in such branches. Moreover, the interactions of these job holders with customers during their service encounters potentially affects the customers and consequently impacts upon them, with regards to whether or not they decided to start up new accounts or to continue their existing custom with the bank.

Turning to the participating bank, it was established in 1945 and similar to many other Thai banks, emerged from the 1997 financial crisis with a new focus on retail customers and quality service. In June 2008, it was ranked as the fifth largest commercial bank in Thailand, with a total of 4,675 customer contact employees in 580 national branch networks. Regarding this study, after several meetings with the HR director, this researcher was allowed to gain access to the customer contact employees in all the branches nationwide. However, because the range of products and services made available to the customers varied according to branch locations (e.g. high streets, industrial estates, residential areas, conference centres) which had implications for the comparison of sales performance between branches, only those branches located in the high street shopping areas were enlisted for the investigation, giving a total of 312 branches. This was justified on the grounds of these branches providing a common range of products and services including current and saving accounts, personal loans, mortgages, SME loans, insurance policies, credit cards, and personal investment advisory services. In contrast, branches not in the shopping areas (a total of 268 branches) only provided a certain combination of these products, depending on the local community and the market environment surrounding each particular branch. In sum, the sample was based on the whole population of 312 high street branches comprising 2,592 customer contact employees.

Regarding the logistics of the study, the questionnaire survey was distributed through the HR consulting unit at the bank headquarters. That is, the survey packages were addressed to individual branch managers and sent to the HR consulting unit, which in turn, coordinated the internal logistics of disseminating them to the participating branches. Each package included: questionnaire booklets (equal to the number of target respondents in each branch); return envelopes addressed to the HR consulting unit; and a cover letter addressed to the branch manager to inform him/her about the objectives of the project, target respondents for the survey, instructions and the deadline for returning the completed survey. Details of the project were also provided in the enclosed survey booklets, through which each of the

respondents was informed about the purpose of the research, voluntary nature of participation and anonymity of the responses. Because the return questionnaires were collectively sent back to the HR consulting unit by the branch manager, each respondent was also given stickers printed with the word 'confidential', with which they could seal their completed survey and thus assure their confidentiality. To maximize the response rate, two weeks after the initial distribution of the survey this researcher phoned the branch managers to remind them about the project and ask for their continuing cooperation and this was repeated for managers in those branches that missed the return deadline. There was no incentive (cash or otherwise) offered to individuals for participating in this project.

### **3.3.3 Operationalization of Study Measures**

The measures relevant to this current study framework (figure 2-7) and their key informants are described below. Established scales were used for all the measures except for that of branch performance achievement, which was provided by the HR department, based in the bank's headquarters. The original scale measure for each construct was retained and a summary of the scales being used for this study is given in appendix 3-1.

When operationalizing measures, given that the research was conducted in a Thai setting, where respondents use Thai as their first language, the procedures recommended by Brislin (1990) were followed regarding translation of surveys. First, the English survey items were translated into Thai. Second, a Thai practitioner in human resource management (HRM), who was proficient in English, improved the translation of phrases where any concerns or discrepancies emerged regarding HRM conceptualization and people management terminology between the English and Thai versions. Third, to validate the survey translation, a few English-Thai bilinguals were hired to translate the Thai survey back into English, with these back translation versions subsequently being compared and any inconsistencies discussed. As a final check, a native speaker of English

compared the back translation with the original English survey for any discrepancies. In steps three and four, a number of amendments to the Thai survey were made so as to achieve the nearest possible meaning to its original English version. After all the above actions were finished, a pilot testing of the Thai translation was conducted by distributing it for completion among customer contact employees in another retail organization (N = 92) and Cronbach's Alpha for each variable was found to be bigger than 0.70, which is an acceptable reliability level for the research measure (Nunnally, 1978), with lowest score for this being 0.75 for the affective commitment scale. Next, the measures used for each of the study variables are discussed. The question items related to each measure are given in appendix 3.2.

#### *Perceived Level of HR Practices*

Wright and Boswell (2002) commented that the literature to date has provided an inconclusive list of which particular HR practices should be selected for consideration by scholars. Wright and Gardner (2003) suggested that examination of a broad set of HR practices encompassing those commonly found in the management research area and not just those considered to be explicitly beneficial to workers, can better inform practice and theory regarding optimizing worker and organizational outcomes. With respect to this, Lepak, et al. (2006) have identified the high performance work system (HPWS) as the concept that has received the most extensive attention in the HR-performance literature (e.g. Appelbaum, et al., 2000; Delery & Doty, 1996; Huselid, 1995). A measure for this, as developed by Delery and Doty (1996) was adopted for this study because it has been used with front-line staff in the banking sector in earlier studies and in addition, has been applied by other researchers in a non-Western country (e.g. Sun, et al., 2007). That is, the seven facets of HPWS include: internal career opportunities, training, performance appraisal, profit sharing, employment security, employee participation, and the provision of clearly defined job descriptions. Sample statements that are used are: 'Extensive training

programs are provided for me’, ‘I have clear paths within the organization’ and ‘My job security is almost guaranteed to me’.

In addition, Boselie, et al. (2005) identified three alternatives for measuring HR practices namely: the measure of its presence, i.e. a dichotomous scale (‘yes/no’) regarding whether the practice is actually in effect or not; the measure of its coverage, i.e. a continuous scale for indicating the proportion of the workforce covered by it; and the measure of its intensity or provision level, i.e. a continuous scale for assessing the degree to which an individual employee is exposed to the practice in question. The authors also made the observation that the measures of the presence and coverage of a particular practice have overwhelmed the extant literature in the field and they attributed this to the tendency for scholars in much of the previous research to rely on HR personnel and management as key informants, who, because of their roles as policy makers and administrators, were limited to identifying these aspects in relation to their workforce. Consequently, so as to address the lack of research on employee perceptions of HR level or intensity, the focus of this current study is to collect and their experiences when subject to these practices. Moreover, to do so the measure of HR level was used, whereby the employee could express an opinion regarding the extent to which a certain practice existed. That is, with the intensity measure being drawn up as a seven-point scale, ranging from 1 = ‘strongly disagree’ to 7 = ‘strongly agree’, a whole range of opinions could be expressed on each of the different items.

#### *Perceived Breach of HR Practices*

Conway and Briner (2005: 91-94) have explained that, in general, there are two common measures of psychological contract breach the global measure and the content-specific measure, with the former referring to overall perceptions of how much an organization has fulfilled or failed to fulfil its obligations or promises. For example, one measurement item listed in Robinson and Morrison’s (2000) global measure of breach is: ‘Almost all

the promises made by my employer during recruitment have been kept thus far' (reverse scored). By contrast, the content-specific measure refers to various content items of the psychological contract (e.g. pay, training, job security). Some researchers have used employees' reports of the extent to which they perceive an organization has failed to fulfil its obligation regarding specific items that they are interested in investigating (e.g. Kickul, Neuman, Parker, & Finkl, 2001), whilst others have used a subtraction method, whereby the discrepancy between employees' reports of organizational obligation and perceived organizational inducement, in relation to such items, is calculated (e.g. Coyle-Shapiro, 2002; Robinson, 1996).

Conway and Briner (2005: 94) argued that although a global measure outweighs a content specific measure in that the global measure covers all aspects of the psychological contract an employee may have with the organization, the content specific measure, however, can clearly identify which items are being fulfilled and which are not. Whilst this specific measure could also omit some of the items perceived to be important to an employee, Rousseau and Tijoriwala (1998) suggested that taking a standardized measure of psychological contract content, although not capturing the full array of features involved, is also practicable. That is, they argued that, if it is derived from the theory, the adopted measure of psychological contract content would automatically cover the most common organizational practices, such as rewards and career paths. They further indicated that using this general content of psychological contract measure can allow for assessments to be made across people and settings, thereby having the advantage of future replication being possible to verify the results.

The content-specific measure of contract breach using a subtraction approach was deemed to be more appropriate than a global measure for the current study for a number of reasons. First, the same content as in the HPWS used for 'Perceived level of HR practices', being content specific in nature, could be used to measure contract breach, because this allowed for a



proper analysis of the interactions of these two types of HR experiences. Second, it was necessary to use a subtraction approach to avoid the problem of ‘common variance’, whereby the variance of one particular variable was shared with other variables or measures. That is, by asking the respondents to identify the degree to which the organization had failed to fulfil its obligation, they would have had to assess psychological contract breach through the mental process of examining the obligation against what was actually delivered (Rousseau & Tijoriwala, 1998). Having the self-report of contract breach might therefore, influence the employees’ reports of the perceived level of HR practices, which had been included in the research design as a separate measure. In sum, this researcher took it that it was more statistically robust to compute the breach statistics through the subtraction process, rather than using a global measure.

Respondents were asked to identify the degree to which they believed the organization was obligated to provide them with the content of the HR practices in question, with the list of organizational obligations having been reworded in order to capture their perceptions of them. For example, the statement: ‘Extensive training programmes are provided for me’, as an assessment of employee’s actual experience of the practice, was modified to ‘The bank is obliged to provide me with extensive training programmes’, and likewise ‘My job security is almost guaranteed to me’ was modified to ‘The bank is obliged to almost guarantee my job security’. Previous research that has employed the subtraction strategy has also used this rewording approach (e.g. Coyle-Shapiro, 2002).

The measure of psychological contract breach was created as follows. The degree to which each item was reported on regarding its level was subtracted from the degree to which it was reported as obligated by the employer. For example, if an item was perceived to be highly obligated (a score of 7) and was perceived to be of low intensity by the respondents (a score of 3), this resulted in a high breach discrepancy ( $7 - 3 = 4$ ). Conversely, if an item was perceived to be weakly obligated (a score of 1) yet well received by the employees (a score of 7), this resulted in a high

fulfilment discrepancy ( $1 - 7 = -6$ ). As a final example, with respect to an item moderately perceived as being obligated (a score of 4) and seen as partially provided (a score of 4), this yielded no discrepancy ( $4 - 4 = 0$ ).

### *Affective Organizational Commitment*

Affective organizational commitment characterizes employees' emotional attachment to, identification with, and involvement in the organization (Allen & Meyer, 1990). This was assessed using Meyer, Allen and Smith's (1993) six-item measure, through a seven-point scale ranging from 1 = 'strongly disagree' to 7 = 'strongly agree'. The items included, for example: 'I would be very happy to spend the rest of my career with this organization' and 'This organization has a great deal of personal meaning for me'. These authors' report of alpha for affective commitment was 0.91 and this particular measure has been widely used in previous research (Klein, Molloy, & Cooper, 2009).

### *Perceived Organizational Support*

Perceived organizational support (POS) refers to employees' perceptions of the extent that the organization values their contribution and cares about their well-being (Eisenberger, et al., 1986). A recent review has suggested that a short version of the questionnaire for POS is practical to use, because although it entails fewer items it is still as reliable as the original Survey of Perceived Organizational Support scale (SPOS) (Rhoades & Eisenberger, 2002). Consequently, for this study a shortened version of SPOS was adopted that included the nine items loaded highest in Eisenberger et al.'s (1986) factor analysis ( $\alpha = 0.93$ ). This shortened version of SPOS has also been employed in previous research (Uhl-Bien & Maslyn, 2003; Wayne, et al., 1997). Employees were asked to indicate their degree of agreement with these items on a seven-point scale ranging from 1 = 'strongly disagree' to 7 = 'strongly agree', with examples of these items

being: 'Help is available from management when I have a problem' and 'Management strongly cares about my opinions'.

### *Leader-Member Exchange*

Leader-member exchange (LMX) covers the interpersonal relationship between the line manager and staff (Graen & Uhl-Bien, 1995). These authors concluded that LMX-7 is the most appropriate measure for assessing leader-member relationship quality, because it contains high correlations among the factor scales and is more consistent ( $\alpha = 0.90$ ) than other LMX measures. The LMX-7 consists of seven items that define various aspects of the working relationship between the supervisor and the subordinate, including: effectiveness of the work relationship, understanding of job problems and needs, recognition of potential, and willingness to support others, specific examples of which are: 'I usually know where I stand with my manager' and 'My manager has enough confidence in me that s/he would defend and justify my decisions if I was not present to do so'. Participants were asked to respond to these items on a seven-point scale ranging from 1 = 'strongly disagree' to 7 = 'strongly agree'.

### *Unit-level Organizational Citizenship Behaviour*

According to Organ (1988), organizational citizenship behaviours are employee discretionary behaviours performed to support the interests of the group or organization. Given that this study was targeted on bank branches and the primary respondents were customer contact employees whose service delivery is imperative to business competitiveness, a 16-item service-oriented OCB scale developed by Bettencourt, Gwinner and Meuter, (2001) was adopted as the construct measure. This was because this measure was considered to capture a broad range of relevant discretionary service behaviours in the retail banking business that could affect the operational effectiveness of the branch. This measure has been deployed in

other research in financial service settings (Lin, Hung, & Chiu, 2008) as well as in the study of service operations, such as the hotel business (e.g. Sun, et al., 2007). The three facets of service-oriented OCB included: a five item measure of service loyalty (e.g. promoting the company's goodwill to outsiders); a five-item measure of service participation (e.g. employees keeping themselves and team members well-informed about company products and services and the changing needs of customers); and a six-item measure of conscientious service delivery (e.g. concerning for and delivery of quality customer service). A five-point agree/disagree scale ranging from 1 = 'strongly disagree' to 5 = 'strongly agree' was used for this measure. Bettencourt, et al. (2001) reported alpha for service loyalty at 0.76, service participation at 0.86, and for conscientious service delivery at 0.79.

Researchers have explained that group-level survey items should be referenced to the entire group and not just individual members in order to maintain the consistency of the theory, measurement, and inference from the data (Chan, 1998; Rousseau, 1985). Moreover, this could reduce the single source bias that might have arisen if the respondents had been asked to rate their own citizenship behaviours. Thus, the 16-item instrument was prefaced with the statement, "My co-workers....", and the respondents were asked to rate their colleagues in the branch according to the extent to which they demonstrated the service-oriented behaviours described in these survey items, with specific examples being: 'My co-workers generate favourable goodwill for the company' and 'My co-workers make constructive suggestions for service improvement'. In this regard, previous research has used co-workers ratings to represent unit level prosocial behaviour (e.g. Pelled, Cummings, & Kizilos, 2000; Tepper, Hoobler, Duffy, & Ensley, 2004).

### *Branch Performance*

A meta-analytical review of HR practices and organizational performance associations reported that the HR-performance relationship appears invariant to the choice of organizational performance measure, whether it is focussed on operational or financial aspects of performance (Combs, et al., 2006). Moreover, previous research of HR-performance relations in the retail bank setting has employed several different measures to represent branch performance, such as: sales achievement, overtime, and staffing levels (Bartel, 2004; Gelade & Ivery, 2003; Gelade & Young, 2005) and these have been used either to explain the phenomenon across units within a bank, or alternatively to compare banks. However, the only common measure that has featured in all of these studies has been sales achievement and accordingly, in this study branch sales achievement was adopted as the measure regarding business outcomes.

Wright, et al. (2005) have contended that business units within a single company are, to a large extent, identical regarding basic products and operations, but that regional differences may result in different volumes and mixes of products sold, owing to a range of economic factors, such as: location and household population composition in the different areas (Gelade & Ivery, 2003; Gelade & Young, 2005). Therefore, in the current study branch performance was measured by using the actual branch sales as a percentage of its targets or in other words, branch sales achievement was used as a proxy for performance at the branch level. This compensated for any differences at the branch level, e.g. size and location that could affect the level of business opportunities that the different branches were able to take advantage of. Further, in order to take into account the lagged time effects regarding employee assessment on HR practices and employee outcomes on business results, branch sales achievements reported twelve months after the questionnaire was launched were used for the analysis.

### *Control Variables*

Some additional control variables, reported in the literature to have influential effects on the study variables, such as employee age, gender, organizational tenure, and branch size, were included. The specific controls that were used for each level of analysis carried out are explained in chapter 4 (individual) and chapter 5 (branch).

### **3.4 Analytical Strategy**

The analytical strategy set out here describes the series of analysis employed in order to obtain valid results and conclusions for this study. First, the constructs were validated using exploratory and/or confirmatory factor analysis and the reliability of the scale (Cronbach's alpha) was established. Specific to the analysis at the organizational level, an intra-class correlation (ICC) (Bliese, 2000; James, 1982) was also conducted to validate the aggregating of the individual measures to the branch level. Next, descriptive statistics and Pearson's correlations were provided to verify the preliminary relationships among the study variables, as explained in the relevant theory. Following this, the tests of the structural relationships were conducted using a structural equation modelling technique (SEM). The rationale for selecting SEM as the analytical tool is provided below along with the details of the fit statistics being used to test the hypotheses.

Latent variable structural equation modelling (SEM) with AMOS 16 (Byrne, 2009) was used to test the proposed structural model and the hypotheses set out in chapters 4 and 5. This has been widely acknowledged as a powerful statistical technique that combines the analysis of the measurement model (the strength of relations between indicators of the constructs) and the analysis of the structural model (the strength of relations between latent variables or path analysis) into a simultaneous statistical test. In addition, it also allows for a simultaneous estimation of multiple interrelated dependence relationships. Furthermore, the analysis accounts

for measurement error in the dependent (i.e. caused, criterion, endogenous) and the independent (i.e. causal, explanatory, exogenous) constructs, when estimating structural relationships between latent variables. In fact, SEM has been cited as an ideal technique for testing and comparing rival theoretical models (James, Mulaik, & Brett, 1982, 2006; Medsker, Williams, & Holahan, 1994) and thus, given these advantageous features of this technique, it was deemed suitable for the tests of the structural models hypothesized in chapters 4 and 5.

In SEM, the model is formulated prior to estimation on the basis of theory and/or past research in the field. Thus to start, measurement models were specified, by assigning observable indicators to their hypothetical or latent constructs and subsequently, structural models establishing relationships between the study variables were identified. The two-step approach suggested by Anderson and Gerbing (1988) was followed in the analysis process to test hypothesized relationships. First, the measurement model was validated through confirmatory factor analysis, in order to demonstrate the adequacy of the observed indicators as the measures for the latent variables. Second, the structural model, representing the hypothesized structural relationships between the latent variables, was evaluated using a nested-models comparison approach and subsequently the path estimates were assessed based on the best fit model.

Several model fit indices are available to evaluate the fit of the model, which help researchers to identify which of the proposed models best fit the data and in this regard, they have been advised to take more than one fit index when evaluating the fit of a model (Loehlin, 1998: 76). For this study, the chi-square difference test ( $\Delta\chi^2$ ) was employed to identify the best fit model from the nested-models comparison. The root mean square error of approximation (RMSEA) and two incremental fit indices, namely: comparative fit index (CFI) (Bentler, 1990) and incremental fit index (IFI) (Bollen, 1989) were used as the adequate fit indices of the model. These are explained in further detail below.

The chi-square statistic ( $\chi^2$ ) is the generally recognized fit index for assessing model fit. It tests the null hypothesis of no difference between the proposed model and the data structure. That is, a good-fitting model should have a small discrepancy between the sample and the fitted covariance matrices; an optimal fit is indicated by a value of zero and therefore, the chi-square statistic should not be significant, suggesting the model fits perfectly to the data. Owing to the nature of this statistical significance test, the chi-square distribution is heavily impacted upon by the sample size and to retain the null hypothesis for a large sample, as is the case in the current study, is almost impossible (Joreskog, 1993; Marsh, Balla, & McDonald, 1988). Whilst it has certain shortcomings with regard to the assessment of overall model fit, the chi-square difference test ( $\Delta\chi^2$ ) provides a useful basis for making decisions concerning comparisons between nested models, in which all of one model's free parameters are a subset of a second model's free parameters (Loehlin, 1998: 68).

Many other fit indices have been developed to supplement the  $\chi^2$  test (e.g. Bentler & Bonnett, 1980; Hu & Bentler, 1995). In this regard, RMSEA has been commonly reported in the literature as an effective measure for describing how well the model would fit in the population. In theory, no model would fit exactly in the population and the deviation could be attributed to the error of approximation of the population data in that an RMSEA value close to zero indicates a small error of approximation of the population data and a good fit of observed data to the hypothesized covariance structure model of interest. More specifically, the interpretation of RMSEA values is considered according to the following:  $< 0.05$  = close fit;  $0.05 - 0.08$  = fair fit;  $0.08 - 0.10$  = mediocre fit;  $> 0.10$  = poor fit (Byrne, 2009: 80). Moreover, RMSEA distribution values or a confidence interval are also available and can be used as the indicator of the level of its precision, thus resulting in a strong inferential statistic of this index for assessing the model fit (Tanaka, 1993).



CFI and IFI are incremental fit indices that assess the relative fit of the target model to a highly restricted model or uncorrelated variables null model, which represents a baseline level that any realistic model would be expected to exceed. In other words, the incremental indices estimate the relative improvement per degree of freedom of the target model over a baseline model. Both the CFI and IFI provide more consistent estimates across a range of sample sizes than other fit statistics, such as Tucker-Lewis index (TLI) or non-normed fit index (NNFI) (Hu & Bentler, 1995), with the indices scales for these varying between 0 and 1. In this regard, models resulting in CFI and IFI values of 0.90 or higher are considered acceptable (ibid.).

In sum, because of the large sample size in the current study, the researcher opted out of using chi-square distribution analysis in favour of the RMSEA for statistically assessing the overall fit of the model. In addition, CFI and IFI were used to evaluate the proportion of fit accounted for by the investigated model relative to its baseline, whilst the chi-square difference test ( $\Delta\chi^2$ ) was considered the appropriate best fit model in the nested-models comparison. The data analysis and results from this analytical strategy are provided next in chapters 4 and 5.

## Chapter 4

### The Individual Level Analysis

Chapters 4 and 5 are empirical chapters in that chapter 4 identifies the HR-performance relationship at the individual level by testing the influence of exchange content and exchange parties on the variance in employee commitment, whilst chapter 5 extends the empirical research from chapter 4 by aggregating employee commitment to the branch level of analysis, so as to examine its impact on group OCB and branch sales performance.

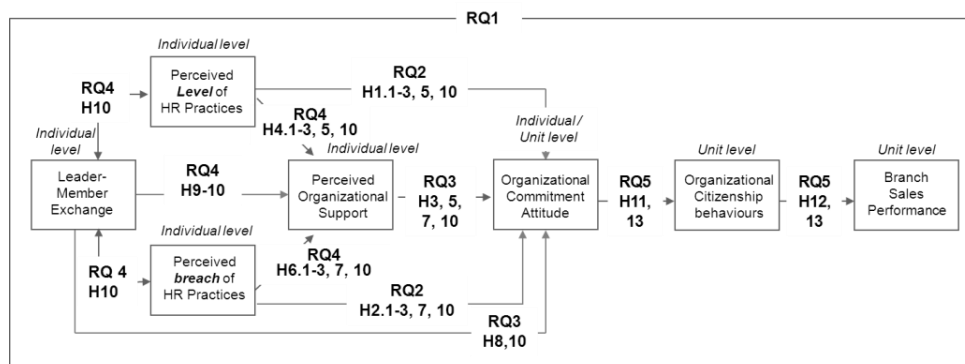


Figure 4-1 The Associations of the Research Questions and Hypotheses with the Proposed Research Framework

As shown in figure 4-1, the individual level analysis in this chapter is aimed at addressing the research questions 2-4 set out in chapter 2, whereas research question 5 will be addressed in the unit level analysis chapter (chapter 5). Moreover, the rationales for hypotheses development in relation to these research questions and the linkages are justified in the appropriate chapter, whereby as can be seen in figure 4-1, hypotheses 1-10 are, proposed, tested and discussed in chapter 4, whilst these aspects of hypotheses 11-13 are covered in chapter 5. The synthesized results from chapters 4 and 5 will then form the basis for addressing the principal research question (RQ1) where the implications of this multidisciplinary and multilevel approach to HR-performance research will be discussed (chapter 6).

## **4.1 Introduction**

The individual level analysis of the HR-performance process contained in this chapter is aimed at eliciting the nature of the exchange relationships between employee perceived organizational offer regarding the employment practices and their subsequent reciprocation in the form of organizational commitment attitudes. Organizational commitment is a psychological state that drives employee-organization bonding by governing an employee's decision whether or not to continue their membership of the employing organization and to exert their efforts to achieve the organizational goals (Allen & Meyer, 1990; Meyer & Allen, 1991; Meyer & Herscovitch, 2001; Mowday, et al., 1982). The concept has been well tested empirically, with regards to its association with employee retention, work performance, citizenship behaviours and business performance (Mathieu & Zajac, 1990; Meyer, et al., 2002; Nishii, et al., 2008; Podsakoff, Blume, Whiting, & Podsakoff, 2009; Podsakoff, et al., 2000; Wright, et al., 2003). The evidence from these studies suggests that organizational commitment is something worth developing in employees, because it can have an impact on organizational effectiveness.

Wright and Nishii (2004) have argued that employee outcomes, such as organizational commitment, are guided by their perceptions of HR practices and that a variation in these perceived practices across employees within an organization can partly result from differential quality in the HR delivery, on the part of senior management and the line manager (Coyle-Shapiro & Shore, 2007; McGovern, et al., 1997; Purcell & Hutchinson, 2007). Other prior research has found further support for this contention that there is a positive influence of the perceived HR provision and a negative effect of the psychological contract breach of HR practices on employee commitment (e.g. Conway & Briner, 2005; Meyer, et al., 2002; Wright & Boswell, 2002; Wright, et al., 2003; Zhao, et al., 2007). In addition, other studies have reported that HRM effectiveness can be improved by attention being paid to the quality of supportive management and supervisory leadership (e.g. Bartel, 2004; Gerstner & Day, 1997; Guest & Conway, 2004; Purcell &

Hutchinson, 2007; Purcell, et al., 2003; Rhoades & Eisenberger, 2002). The above evidence suggests that both the perceived quality of HR content and that of the organizational agents who deliver it can have an impact on the level of employee commitment.

The aim here is to build on the above arguments and previous research by undertaking an integrated study of the aforementioned key influential factors that have been well established both theoretically and empirically, as having effects on employee commitment. To operationalize this, Blau's (1964) social exchange theory and its notion of value benefits are enlisted, which suggest that the value benefits being received are an accumulative assessment of both the value of the commodity in exchange and the value pertaining to its source. The proposed research framework to this end, as depicted in figure 4-1, illustrates that employee reciprocation to the organization in the form of affective organizational commitment (AOC) is influenced by their perceived quality of organizational exchange content, i.e. perceived HR level and perceived breach of HR practices, as well as by their perceived quality of the organizational agents in delivering the HR content, i.e. perceived organizational support (POS) and leader-member exchange (LMX).

By taking this stance, this researcher is resorting to a multidisciplinary approach to HR-performance research that draws on social exchange theory, which is based in the field of sociology, and includes some explanatory variables drawn from the field of organizational behaviour, i.e. psychological contract breach, POS and LMX, to investigate HR variability (Boxall & Purcell, 2008; Boxall, et al., 2007; Coyle-Shapiro & Shore, 2007; Nishii & Wright, 2008; Wright & Boswell, 2002; Wright & Gardner, 2003). Through this analysis, a contribution is made to HR-performance theory by integrating the quality of exchange content and the quality of organizational agents in framing employee understandings of organizational exchange which, in turn, impact on the level of employee willingness to exert efforts towards achieving organizational goals.

This chapter is structured as follows. In section 4.2, the conceptual foundations of the proposed structural model are set out and this frames the testable hypotheses for the chapter. The research methodology for the analysis of the individual level data is explained in section 4.3 and the hypotheses are empirically tested and reported in section 4.4. Subsequently, the theoretical and practical implications, based on the findings, are discussed in section 4.5.

## **4.2 Literature Review and Hypotheses Development**

### **4.2.1 Organizational Commitment**

Organizational commitment has been studied from different perspectives (e.g. economic, social, behavioural, psychological) since the early 1960s and by the early 1980s it had become widely accepted as an important outcome variable, with attitudinal commitment focusing on how and why individuals identify with an organisation's objectives being of particular interest (Mowday, et al., 1982). Klein, et al. (2009) have further highlighted that the breadth of commitment study has been vastly expanded in recent years, to include: 1) multiple commitment targets covering the individuals and groups or foci to whom an employee is attached (e.g. Becker, 1992; Becker, et al., 1996) and 2) multiple commitment bases or motives engendering attachment (e.g. Allen & Meyer, 1990; Meyer & Allen, 1991; Meyer & Herscovitch, 2001; O'Reilly & Chatman, 1986).

To date, the three bases of organizational commitment (affective, normative, and continuance commitment) (Meyer & Allen, 1991) have come to prominence in the study of workplace commitment (Klein, et al., 2009). These three forms of commitment are argued as being founded on different psychological states or underlying forces of the organizational attachment, ranging from instrumental to emotional (Allen & Meyer, 1990; Meyer & Allen, 1991). More specifically, affective commitment is characterized as an emotional attachment to, identification with, and involvement in the

organization, whereas continuance commitment is defined as awareness of the costs associated with leaving the organization and of there being limited employment alternatives and finally, normative commitment is considered to be the belief that it is one's obligation to remain with the organization. As such, the three components of organizational attachment are rooted in different bases, namely: affective commitment is generated through personal desire; continuance commitment through perceived costs and alternatives; and normative commitment through perceived obligation (Meyer & Herscovitch, 2001).

Whilst organizational commitment attitudes have been generally referred to as the force that binds the employee to the organization (Meyer & Allen 1991), Meyer and Herscovitch (2001) have delineated its implications on employee performance, especially discretionary behaviours, arguing that employees with affective commitment attitudes tend to activate discretionary behaviour on top of focal behaviour (the explicitly specified behaviour or the basic requirement agreed between themselves and the employer), whereas those with normative and continuance commitment tend to work towards their role prescription. The logic here is that because highly affective committed employees are likely to have a stronger degree of organizational identification and attachment (Meyer & Allen, 1991; Mowday, et al., 1982), they will be motivated to exert higher levels of energy on behalf of the organization. Thus, the strength of the relationship with performance and particularly discretionary performance, could be stronger in respect of attitudinal or affective organizational commitment (AOC) than for normative or continuance commitment.

Empirically, in comparison with normative and continuance commitment, AOC has been found in meta-analytical reports to correlate more strongly with several workplace behaviours, such as: organizational citizenship behaviours (OCB), job performance, low turnover and absenteeism (Mathieu & Zajac, 1990; Meyer, et al., 2002). In addition, AOC has also been reported as having influential effects on business unit performance, such as customer satisfaction and profitability (Deery & Iverson, 2005;

Nishii, et al., 2008; Podsakoff, et al., 2009; Podsakoff, et al., 2000; Wright, et al., 2003).

This evidence highlights affective organizational commitment as being the variable of interest, particularly if the study is aimed at understanding the linkages between employee outcomes and business performance, because it indicates that it is the improvement in this attitudinal domain that can most effectively lead to enhanced business outcomes. This perspective was adopted for the current investigation, because the characteristics of AOC were considered as having significant employee outcomes that can impact on business performance and the development of employee affective organizational commitment through the social exchange framework is analyzed in the remainder of this chapter.

#### **4.2.2 Development of Employee Affective Organizational Commitment through the Social Exchange Framework**

##### **4.2.2.1 HR Practices and Employee Commitment**

Because employee commitment appears to be associated with desired work behaviours, it is this that organizations seek to develop and maintain among their employees. Accordingly, studies of employee commitment development during the past two decades have been focusing on its causal antecedents, with consistent findings that work experiences (e.g. training, role clarity, objective performance appraisal and fairness, job challenge, autonomy, opportunity in participation and job security) have considerable effects on employees' reports of their commitment levels (Mathieu & Zajac, 1990; Meyer & Allen, 1991; Meyer, et al., 2002). Whilst these findings would appear to support HR intervention in the development of commitment attitudes, Meyer and Allen (1991), even at an early stage, recognized that affective commitment development research was hindered by the unsystematic use of the predictors and therefore it was difficult to

identify why some work experiences would engender affective attachment to the organization, whereas others have little or no impact.

Subsequently, many HR scholars have taken it to be central to the development of HR systems that if the elements of the binding force that tie the employees with organizational values and objectives could be clearly identified, then these could be exploited so as to mobilize employee discretionary effort in support of organizational goals (e.g. Arthur, 1994; MacDuffie, 1995; Pfeffer, 1998). To date, high performance work systems (HPWS: Pfeffer 1998), which encompass the integrated practices including intensive training, performance-based pay, employee voice, job security and information sharing, have been well established in the literature to have association with employee commitment development through their influence on the employees' ability, motivation and opportunity to participate (AMO) (Boxall & Purcell, 2008; Lepak, et al., 2006; Wright & Boswell, 2002).

For example, employees who have received relevant training and support are more likely to feel more capable to deal with work related issues and to accomplish work objectives than their counterparts who lack this opportunity. This will result in the former identifying more closely with the organization and thus being willing as well as being able to contribute to its success. Further, because the trained and supported employees are able to employ the skills required for the job and by the organization, psychologically, the employees can be expected to feel secure with their current employer, which is likely to strengthen their resolve of retaining their membership of the organization.

Therefore, it is logical to expect that organizational inducement, in the form of HPWS aiming to improve employees' AMO, can nurture a stronger level of identification with and involvement in the organization among the employees and as a result, increase their willingness to exert effort towards achieving organizational goals. That is, such HR provision in relation to the development of employees' AMO furnishes the employees with favourable



work experiences and according to the social exchange framework (Blau, 1964; Gouldner, 1960; March & Simon, 1958) this should generate in them a sense of obligation to repay the organization. Moreover, the strength of this obligation depends on the degree to which the employees value these HR benefits, which in turn will be reflected in the level of their reciprocal commitment towards the organizational goals. Therefore, it is to be expected that the AMO drivers will be positively associated with affective organizational commitment and thus, it is hypothesized:

*Hypothesis 1.1: Perceived level of HR practices in the ability domain (A) has a positive association with employee affective organizational commitment.*

*Hypothesis 1.2: Perceived level of HR practices in the motivation domain (M) has a positive association with employee affective organizational commitment.*

*Hypothesis 1.3: Perceived level of HR practices in the opportunity to participate domain (O) has a positive association with employee affective organizational commitment.*

#### **4.2.2.2 Psychological Contract Breach and Employee Commitment**

Psychological contract breach represents the other side of employee experiences regarding employment relationships (Rousseau, 1995). The negative effects of which have been found across work-related and employee outcomes, such as: low organizational commitment, job dissatisfaction, reductions in job performance, reduced levels of organizational citizenship behaviours and an increase in work withdrawal behaviours (Conway & Briner, 2005: 69-77; Zhao, et al., 2007). The term psychological contract refers to a promissory-based contract that is understood by the employee to be a mutual reciprocal obligation between the individual employees and the employer, concerning the organization promising rewards for their contribution, such as: job security and promotions and in turn for loyalty being given to the organization by the

employees (Rousseau, 1989, 1995, 2001). Embedded in the social exchange framework, proponents of psychological contract theory argue that employees expect to receive the organizational rewards for their contribution in the employment relationship and that a positive on-going relationship between the employees and organization could be expected if the obligations are being fulfilled, otherwise the employees will seek to match their efforts with their perceived value of the organizational inducements.

Whereas it is argued that a positive perception of HR level can engender favourable employee work experiences and an accompanying rise in employee affective commitment, under psychological contract theory it is suggested that the perceived value of any benefits would be diminished should the level being offered not be seen as to equate with what the organization has promised (Rousseau, 1989, 1995). In such circumstances, the strength of employee obligation to the organization will decline and as a result, they will exhibit a lower level of commitment. Moreover, because psychological contract breach causes organizational mistrust, it is doubtful that the employees will continue to accept and share the organization's values and they may even withdraw their membership. Previous research has shown an association between unfulfilled organizational obligations with a decline in employee trust, AOC, OCB and loyalty along with increased levels of absenteeism (e.g. Coyle-Shapiro & Kessler, 2000; Deery, Iverson, & Walsh, 2006; Robinson, 1996; Robinson, et al., 1994).

However, Conway and Briner (2005: 90-94) have pointed out that whilst the deteriorating effects of contract breach have been consistent across studies, previous research has been inconsistent in the measures being used (e.g. 9 items: Rousseau, 1990; 16 items: Turnley & Feldman, 2000; 13 items: Guest & Conway, 2002; 26 items: Kickul, 2001). Although these measures share some common practices, such as: training, pay, benefits, promotion, job challenge and job security, they were mainly drawn from interviews with the participating organizations or tailored specifically to their research operations. Conway and Briner (2005) have argued that this limitation

reflects the weak theoretical understanding of how employees make sense of the contents of their psychological contracts. Rousseau and Tijoriwala (1998) suggested that researchers should adopt the measure of psychological contract content that is derived from management theory, because the content of interest would mirror the common organizational practices, such as: rewards, pay and career development. In response to this, this research endeavour is based on the AMO model of commitment development discussed earlier, which purports that whilst an increase in HR level in the three domains of AMO could improve employee committed attitudes, by contrast, a breach of any of these domains could result in a decline in their commitment. Hence, it is hypothesized:

*Hypothesis 2.1: Perceived breach of HR practices in the ability domain (A') has a negative effect on employee affective organizational commitment.*

*Hypothesis 2.2: Perceived breach of HR practices in the motivation domain (M') has a negative effect on employee affective organizational commitment.*

*Hypothesis 2.3: Perceived breach of HR practices in the opportunity to participate domain (O') has a negative effect on employee affective organizational commitment.*

#### **4.2.2.3 Perceived Organizational Support and Employee Commitment**

In the previous two subsections it has been argued that employee commitment can vary owing to the perceived quality of the HR contents (HR level/breach). In this subsection the development of employee commitment based on the quality of the exchange party responsible for the delivery of HR practices is explored. More specifically, the focal constituency here is the senior management who is mainly responsible for the design of HR systems. Eisenberger, et al. (1986) proposed and found support for the social exchange view that employees' commitment to the

organization is strongly influenced by their perceptions of the organization's commitment to them or their perceived organizational support (POS). Based on the assumption that employees form a global belief that an organization should value their contributions and concern about their socio-emotional needs, Eisenberger, et al. advocated that employees would reciprocate the organization with increased work efforts to the degree that they perceive the senior management to be committed to provide them with care and appreciation. With regard to this, HR practices such as: job security, promotion and participation, as Hannah and Iverson (2004) explained, are analogous to socio-emotional resources, in that they are interpreted by the employee to be symbolic of personalized commitment to them by the organization. That is to say, management decisions to provide or withdraw some employment practices made available for the employees reflect the organizational intent regarding employees' care and support and this can impact on the employee obligation regarding their affective response to the organization.

Common findings on the link between perceived organizational support and employee affective commitment were evident in meta-analytical reports of both POS correlates (Rhoades & Eisenberger, 2002) and AOC correlates (Meyer, et al., 2002), with POS being reported as the strongest type of employee work experiences associated with AOC. That is, it emerged that employees strongly reciprocate the perceived indications of an organization's caring and support by increasing their desire to retain organizational membership and their willingness to contribute to its success. In other words, employees are more likely to become affectively engaged with and committed to the organization, if they believe that the organization is committed to them. Thus, it is to be expected that employees with a strong perception of management support would also report a strong affective commitment attitude. More specifically, it is hypothesized:

*Hypothesis 3: Perceived organizational support is positively associated with employee affective organizational commitment.*

Since the recipients of benefits cannot detach their value from the source (Blau, 1964), it is possible that employees could attribute the value of organizational resources or the received HR practices to the extent that they perceive management has committed its support and care to their achievement and well-being. That is, POS could potentially be a causal attribution through which employees make sense of their work experiences and this engenders in them the affective commitment response to the organization (Meyer, et al., 2002). Several studies have tested and confirmed the mediating role of POS in the association of HR provision with organizational commitment. For example, Wayne, et al. (1997) found that POS mediated employees' reporting of their developmental experiences and promotion opportunities and AOC in a large sample of salaried employees throughout the US. Likewise, Rhoades, et al. (2001) revealed that organizational rewards, justice and supervisory support have positive relationships with AOC through POS. Similarly, Allen, et al. (2003) elicited that supportive HR practices (participation in decision-making, fairness of rewards and growth opportunities) contributed to the development of AOC through their influences on POS. According to the social exchange theory, these findings support the hypothesis that employees are grateful for the provision of organizational resources and supportive people management practices and reciprocate their appreciation of management commitment to them, through their loyalty and discretion that manifest themselves in their serving the employing organization enthusiastically. Thus, it is hypothesized that:

*Hypothesis 4.1: Perceived level of HR practices in the ability domain (A) has a positive association with perceived organizational support.*

*Hypothesis 4.2: Perceived level of HR practices in the motivation domain (M) has a positive association with perceived organizational support.*

*Hypothesis 4.3: Perceived level of HR practices in the opportunity to participate domain (O) has a positive association with perceived organizational support.*

*Hypothesis 5 : Perceived organizational support mediates perceived level of HR practices (A, M, O) and employee affective organizational commitment.*

In addition, management commitment to honour its espoused HR systems by delivering what has been promised to the employees adds more value to the employment relationship, because this reflects their respect and intent to continue to remain on good terms with their employees (Blau, 1964). In contrast, when employees experience a perceived contract breach or the organization's failure to fulfil its obligation, this could undermine their respect for and trust in management commitment to them and hence, their reciprocal commitment to the organization could deteriorate. One longitudinal study of breach and POS relations supported the claim that perceived organizational failure to fulfil its obligations in time 1 signals to employees that they are not cared for and valued by the organization and thus results in a decrease in POS in time 2 (Kiewitz, et al., 2009). In other words, in this case the employees reported breach perceptions as management's lack of commitment to fulfil its promises during the earlier period were subsequently interpreted as a signal of a withdrawal of organisational support.

Whilst psychological contract breach has been found to have negative effects on POS and AOC (e.g. Kiewitz, et al., 2009; Zhao, et al., 2007) as well as having a mediating effect between the latter two (e.g. Dulac, Coyle-Shapiro, Henderson, & Wayne, 2008), the extent to which POS could perform the role of mediator between breach perceptions and AOC has not yet been tested in the literature. This researcher is of the belief that this is worth testing, because whilst an increase in employee commitment could be derived from their positive perceptions of organizational support in the form of provision of HR resources, it is logical to consider, conversely, whether a decrease in employee commitment could be due to their perceptions of poor management support, which they consider to be unfulfilled organizational obligation. By testing this explicitly in this study, this will allow for the

capture of the interaction that breach and POS play in the commitment development process. Thus, it is hypothesized that:

*Hypothesis 6.1: Perceived breach of HR practices in the ability domain (A') has a negative effect on perceived organizational support.*

*Hypothesis 6.2: Perceived breach of HR practices in the motivation domain (M') has a negative effect on perceived organizational support.*

*Hypothesis 6.3: Perceived breach of HR practices in the opportunity to participate domain (O') has a negative effect on perceived organizational support.*

*Hypothesis 7 : Perceived organizational support mediates perceived breach of HR practices (A', M', O') and employee affective organizational commitment.*

#### **4.2.2.4 Leader-Member Exchange and Employee Commitment**

Apart from senior management who engage with the employees through the affective process as discussed in the previous subsection, Coyle-Shapiro and Shore (2007) have pointed out that line manager is another organizational exchange party that can influence employee experiences and their understandings of the employment relationship. This is because line manager is the organizational agent who is mainly responsible for enactment of HR practices in day-to-day people management that are aimed at enhancing positive employee attitudes and encouraging productive behaviours (Boxall & Purcell, 2008; Boxall, et al., 2007; Gratton & Truss; 2003; Guest, 2011; Nishii & Wright, 2008).

Some studies of HR variability within organizations have reported that leadership practices, such as different forms of leadership communication, can have varying impacts on employee perceptions of HR practices, thus resulting in a variation in employee attitudes and their subsequent

performance (cf. Bartel, 2004; Purcell & Hutchinson, 2007; Purcell, et al., 2003). Specifically in this regard, Purcell and Hutchinson (2007) as a result of their empirical work found that there was an interactive and dynamic relationship between employee satisfaction with HR practices and their relationship with their immediate supervisor (LMX), which in turn, had an impact on the variation of employee commitment. More specifically, they argued that line manager and HR practices are related in a symbiotic form, such that the former needs high quality HR tools so as to bring out strong people performance and whether or not organization will achieve its HR goals depends on the quality of the line managers who enact these practices to the extent that the employees on receiving these practices are grateful and willing to repay with their discretion towards organizational success. This would appear to suggest that the immediate supervisor plays an important role in the HR implementation process, in particular, in relation to development of favourable employee commitment responses.

Leader-member exchange (LMX) is a relationship-based approach to leadership (Graen & Uhl-Bien, 1995), which has been argued to be a source of variations regarding HR perceptions (Graen & Scandura, 1987; Henderson, Liden, Glibkowski, & Chaudhry, 2009). Further, the LMX model characterizes the exchange relationship between employees and their line manager, with its proponents purporting that an effective leadership process occurs when the leader and member are able to develop mature relationships and thus can gain access to the many benefits that these bring (Graen & Uhl-Bien, 1991; Graen & Uhl-Bien, 1995). With respect to this, the strength of the relationship can range from 'stranger' through to 'acquaintance' and on to a 'mature' stage in the leadership making process. In relation to the foremost, this is analogous to Blau's (1964) economic exchange or the contractual-based relationship, wherein both the line manager and team member interact with each other based on formal obligation or the employment contract, which indicates that there is a low-quality LMX relationship (Graen & Scandura, 1987). At the 'acquaintance' stage (medium LMX dyads), the supervisor and staff begin to share greater resources and information on both the personal and work level and thus



develop a more involved relationship. However, Graen and Uhl-Bein (1991) asserted that an organization will benefit most from the dyadic relationships of the line managers with the members, if the ‘mature’ stage (high quality LMX) is reached, in which leader and follower share mutual trust, respect, and admiration in the relationship. This subsequently, leads the members to engage in activities beyond the formalized work contract and to be becoming concerned about team interests and unit outcomes. High quality LMX is conceptually similar to the social exchange relationship, in which mutual trust and respect form the key bonding elements in the relationship between the employee and employer.

Liden, Sparrowe and Wayne (1997) emphasized the important role of LMX in the workplace after they found in their review of LMX research that most of the line managers across all the work units had differing dyadic relations with their subordinates. In this regard, because line managers tend to use HR tools or socio-emotional resources in day-to-day people management activities, it is thus to be expected that there will be a variation of employee reports on HR level and the promises made to them, given the likelihood of there being a difference in the quality of the leader-member exchange relationship across the employees. Employees’ experiences of HR practices, as a result of which, could also, in turn, influence the strength of LMX, because perceived high level of employment practices and promises being delivered would imply that there was a supportive dyadic relationship, that is, high quality leader-member exchange. This relational process would appear to support the notion of there being confounding effects between HR practices and LMX on the employee commitment responses in the HR-performance process<sup>6</sup>.

One meta-analytical review suggested that employees having a high-quality relationship with supervisor can affect both their attitudinal and behavioural outcomes, such as their affective organizational commitment, overall job

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<sup>6</sup> Covariance between HR-LMX and Breach-LMX are specified in the model to reflect these reciprocal relationships. A test of symbiotic form of relationship between LMX and HR contents is included in Hypothesis 10 (subsection 4.2.2.5).

satisfaction, job performance and can lower staff turnover (Gerstner & Day, 1997), of which, AOC was among the highest correlates of LMX ( $\rho = 0.42$ ). The authors elicited that employee emotional attachment with the organization could be based partly on affective bonding with their immediate supervisor or LMX, because the supervisor is perceived by employees as the key organizational agent (Levinson, 1965) and hence any idiosyncratic deliveries of organizational benefits by local management come as a result of discretionary behaviour by the supervisor (Bartel, 2004; Purcell & Hutchinson, 2007; Purcell, et al., 2003; Zohar, 2000). In addition, the exchange of valuable resources between the line manager and staff could allow each party to achieve their own objectives, which will eventually contribute to the success of organization. Therefore, employees with high quality LMX are likely to identify with and attach themselves more strongly to the organization than their counterparts with low quality LMX and hence it is plausible to expect that strong leader-member exchange would lead to employee commitment.

*Hypothesis 8: Employees' perceptions of leader-member exchange have a positive association with their reports on affective commitment attitudes.*

Moreover, because the development of LMX results from continuing reciprocal exchanges of socio-emotional resources and information between the supervisor and staff, over time, it is likely that the employee could interpret the socio-emotional support received from the line manager as representing the management's intent to provide them with this sort of care and support, that is, the manager's actions come to be considered as perceived organizational support (POS). The LMX-POS linkage has been supported by previous research, in that the results have indicated LMX plays a key role in influencing employees' perceptions of organizational support (e.g. Wayne, Shore & Liden, 1997). Thus, it could be expected that employees with high quality LMX would also have stronger perceptions of

organizational support than those with lower quality LMX. Specifically, this is hypothesized as:

*Hypothesis 9: Employees' perceptions of leader-member exchange (LMX) have a positive association with their perceptions of organizational support (POS).*

#### **4.2.2.5 Integration of the Key Influencers on Employee Commitment Development: The Social Exchange Framework**

SHRM researchers have identified several key influencers that could possibly be responsible for providing a clear explanation of the linkages between HR practices and employee performance (Boselie, et al., 2005; Coyle-Shapiro & Shore, 2007; Purcell & Hutchinson, 2007; Purcell & Kinnie, 2007; Wright & Nishii, 2004; Wright & Boswell, 2002; Wright & Gardner, 2003). In this regard, in addition to the claim for the need to recognize the importance of encompassing employees' reports of their HR experiences in the HR-performance research, calls for research to integrate psychological contracts and incorporate the role of organizational agents in the HR-performance investigation have been more recently introduced into SHRM literature in an attempt to explain what happens in the black box. However, an integration of these potential explanatory variables in HR-performance relationships has not been well researched in the field and to do so, for this study social exchange theory has been adopted as the theoretical backdrop to conceptualize the relationships between these influencers and employee commitment at the individual level of the HR-performance process. That is, organizational provision of HR practices (HR level) and its failure to fulfill its obligations (breach) are conceptualized as the perceived quality of organizational exchange content, whereas the availability of people practices (POS) and how these practices are applied to the employees (LMX) are conceptualized as the perceived quality of the organizational exchange parties. Moreover, because the

value of the benefits cannot be detached from the source (Blau,1964), it is contended that both the quality of the exchange content and that of the exchange party act in concert to inform employee commitment responses or the level of reciprocation made by the employee in the employment relationships. Thus, it is hypothesized:

*Hypothesis 10: The exchange relationship between the employer and the employee at the individual level of the HR-performance process is better explained when POS, LMX, HR level and breach perceptions are included in the model.*

### **4.3 Methodology**

#### **4.3.1 Sample**

For the individual level analysis employee responses from branches located in commercial areas were used and of the total of 2,592 employees surveyed in 315 branches, 1,528 completed questionnaires were returned from 225 branches, which amounted to a 59% response rate at the individual level. Subsequently, incomplete returned surveys and those with answers that did not vary for all or nearly all of the questions were considered invalid, which resulted in 1,286 surveys being usable for the analysis. Seventy three percent of the final sample was female, the average age was 35 years old, 85 percent had been working at the branch for up to five years and almost 60 percent had been with the bank for more than 10 years. The demographics report of the sample is presented in appendix 4-1.

### 4.3.2 Measures

#### *Perceived Level of HR Practices (AMO)*

For the survey, twenty-three question items on high performance work systems (HPWS) as defined by Delery and Doty (1996) were adopted, including: four items on internal career development, four items on training, two items on objective performance appraisal, one item on profit sharing, four items on job security, four items on employee participation and four items on role clarity. Subsequently, in accordance with Lepak, et al.'s (2006) explanation as to how to categorize the AMO framework, these seven facets of HPWS were first allocated to the three AMO domains. Training and role clarity were deemed to belong to the ability (A) domain, because they reflect role specification and expectation as well as the training required for the job role. That is, these practices help the employee to understand what to do to perform their job successfully. Job security, internal career development, objective performance appraisal and profit sharing were categorized as being in the motivation (M) domain, because the employees can secure their roles, share the organizational outcomes and grow as long as they perform according to the objectives. In other words, they understand what they will receive based on their performance and hence, these practices should motivate them to participate in job activities that result in them achieving their goals. Finally, employee participation was, understandably, placed in the opportunity to participate (O) domain.

An exploratory factor analysis (EFA) with principal components extraction and varimax rotation was conducted initially for this sample data set and the results indicated four factors with an item in role clarity giving a very low loading on the ability domain (0.051), suggesting a very weak relationship between the item and its presumed construct. This particular item also loaded negatively on the other three components and so it was removed<sup>7</sup>.

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<sup>7</sup> The item being removed was 'The actual job duties are shaped more by the employee than by a specific job description (R).

The second EFA also produced four factors with most of the items identified in the a priori based AMO framework loading reliably on their predicted factors, except for all the four items on the internal career facet and one item on job security and these five items loaded in the fourth component that emerged. It is suspected that the reason for this is that the participating bank has tenure-based criteria for career development and hence, the internal career scale did not fit in the motivation domain, as expected. Consequently, all the items of the internal career scale were dropped in the next run, thus resulting in a three-factor component. In sum, the final results at this stage of the analysis confirmed the previously identified a priori practices constituting AMO.

Table 4-1 presents the full set of the 18 meaningful items and factor loadings. Next, the internal consistency of the constructs was validated using Cronbach's alphas ( $\alpha$ ). All the three factors gave high internal consistency, with the alpha for the respective domains being: ability 0.88, motivation 0.80, and opportunity 0.81 and these reported alphas are bigger than the minimum required for the psychometric property (0.70) (Nunnally, 1978), In sum, the results from both the EFA and alpha coefficients suggested that these employment practices provided reliable assessment of the AMO constructs.

**Table 4-1**  
**Exploratory Factor Analysis of HR Measures—Item Loadings**  
**The Individual Level Analysis**

Statement	A	M	O
<b>Training</b>			
1 Extensive training programs are provided for me.	0.68		
2 There are formal training programs to teach new hires the skills they need to perform their jobs.	0.64		
3 Formal training programs are offered to me in order to increase my promotability in this organization.	0.76		
4 I normally go through training programs regularly.	0.72		
<b>Role Clarity</b>			
5 My job description contains all of the duties that I need to perform.	0.53		
6 I have an up-to-date job description.	0.67		
7 My duties are clearly defined.	0.69		
<b>Job Security</b>			
8 I can expect to stay in the organizations for as long as I wish.		0.51	
9 If the bank were facing economic problems, employees in this job would be the last to get cut.		0.73	
10 It is very difficult to dismiss an employee in this job.		0.67	
11 My job security is almost guaranteed to me.		0.57	
<b>Objective Performance Appraisal</b>			
12 My performance appraisals are based on objective, quantifiable results.		0.49	
13 My performance is more often measured with objective quantifiable results.		0.55	
<b>Profit Sharing</b>			
14 I receive bonuses based on profit of the organization.		0.37	
<b>Employee Participation</b>			
15 I am allowed to make many decisions.			0.71
16 I am often asked by the branch manager to participate in decisions.			0.76
17 Superiors keep open communications with employees in this job.			0.47
18 I am provided the opportunity to suggest improvements in the way things are done.			0.67

Note:  $N = 1286$ . All loadings are standardized. A = ability, M = motivation, O = opportunity to participate.

### *Breach of HR Practices (A'M'O')*

A subtraction method was used to calculate the breach measure (e.g. Coyle-Shapiro, 2002; Robinson, 1996), whereby the employees' perceived level of specific HR content was subtracted from their corresponding reports of organizational obligation. First, confirmatory factor analysis (CFA) was conducted to validate organizational obligation in relation to the AMO constructs, as found in the HR measures. The results indicated three unidimensional constructs for the perceived obligation of the AMO domain (table 4-2) and the alpha coefficients provided a strong internal consistency for the construct ( $\alpha_{\text{obligation (A)}} = 0.91$ ,  $\alpha_{\text{obligation (M)}} = 0.87$ ,  $\alpha_{\text{obligation (O)}} = 0.87$ ). Next, instead of using algebraic subtraction, as with previous research, Cheung's (2009) structural equation modelling-based latent congruence model was adopted to specify the breach measure, which allows for

estimating the breach latent construct as well as simultaneously controlling for the measurement errors associated with the individual items of perceived HR obligation and level. Figure 4-2 shows an example of the breach measure specification.

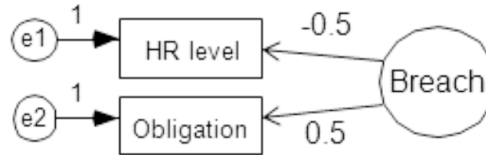


Figure 4-2 Specification of Breach Measure

Based on the figure, breach is operationalized as the difference rating between HR level and perceived obligation and is modelled as the latent factor that has fixed factor loadings of -0.5 on HR level and 0.5 on obligation. The factor loadings are fixed at the specified values, such that HR level and obligation can be expressed as:

$$\text{HR level} = -0.5 \text{ Breach} + e1, \text{ and} \quad (1)$$

$$\text{Obligation} = 0.5 \text{ Breach} + e2 \quad (2)$$

Subtracting Equation 1 from Equation 2 produces:

$$\begin{aligned}
 \text{Breach} &= \text{Obligation} - \text{HR level} \\
 &= 0.5 \text{ Breach} - (-0.5 \text{ Breach}) + e2 - e1 \\
 &= \text{Breach} + \varepsilon, \text{ where } \varepsilon = e2 - e1
 \end{aligned}$$

#### *Affective Organizational Commitment (AOC)*

The six-item measure of affective commitment (Meyer, et al., 1993) was used to capture employees' reports of their affective commitment level. Confirmatory factor analysis indicated AOC as a unidimensional construct with all items loaded moderately to the factor, with the lowest loading being



0.68 (table 4-2). A test of Cronbach's alpha reported a moderately high internal consistency across the measure items ( $\alpha = 0.82$ ).

#### *Perceived Organizational Support (POS)*

Perceived organizational support was measured by the nine-item measure of the Survey of Perceived Organizational Support (SPOS) (Eisenberger, et al., 1986). CFA provided a unidimensional result with one item reporting a weak loading into the construct (0.21), so it was dropped from the analysis<sup>8</sup>. The remaining eight items were reloaded and the CFA reported all items as having a strong relationship with its single underlying construct (table 4-2). Moreover, the reliability alpha was 0.95 and these results suggest POS is a well-constructed measure given the sample data.

#### *Leader-Member Exchange (LMX)*

The seven-item measure of leader-member exchange (LMX-7) (Graen & Uhl-Bien, 1995) was employed, which gave a good measure to the data. The CFA results indicated these seven items a unidimensional construct with all items loading strongly on its single underlying construct (table 4-2). Cronbach's alpha also reported a high internal consistency across these items ( $\alpha = 0.95$ ).

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<sup>8</sup> The item being dropped was 'Even if I did the best possible, management would fail to notice (R)'.

**Table 4-2**  
**Confirmatory Factor Analysis of Study Measures—Item Loadings**  
**The Individual Level Analysis**

Statement	Loading
<b>Obligation - Ability (A~)</b>	
<i>Training</i>	
1 The bank is obliged to provide me with extensive training programs.	0.78
2 The bank is obliged to provide new hires training programmes which provide them with the skills they need to perform their jobs.	0.81
3 The bank is obliged to provide me with formal training programmes so as to increase my promotability in the bank.	0.87
4 The bank is obliged to provide me with opportunity to go through training programmes regularly.	0.78
<i>Role Clarity</i>	
5 The bank is obliged to provide me with a job description that contains all of the duties required for my role.	0.79
6 The bank is obliged to provide me with an up-to-date job description.	0.81
7 The bank is obliged to provide me with clearly defined duties.	0.83
<b>Obligation - Motivation (M~)</b>	
<i>Job Security</i>	
8 The bank is obliged to provide me with employment in the organization for as long as I wish.	0.65
9 The bank is obliged to give me the assurance that if it were facing economic problems, employees in this job would be the last to get cut.	0.73
10 The bank is obliged to keep an employee in this job as far as is possible.	0.79
11 The bank is obliged to provide me with guaranteed job security.	0.81
<i>Objective Performance Appraisal</i>	
12 The bank is obliged to provide me with performance appraisal systems which are based on objective, quantifiable results.	0.75
13 The bank is obliged to measure my performance in ways that provide objective quantifiable results.	0.76
<i>Profit Sharing</i>	
14 The bank is obliged to provide me with bonuses based on profit of the bank.	0.76
<b>Obligation - Opportunity (O~)</b>	
<i>Participation</i>	
15 The bank is obliged to allow me the discretion to make many decisions.	0.82
16 The bank is obliged to provide me with the opportunity to participate in decisions.	0.85
17 The bank branch manager is obliged to have open communications with employees in this job.	0.86
18 The bank is obliged to provide me with the opportunity to suggest improvements in the ways things are done.	0.87
<b>Affective Organizational Commitment (AOC)</b>	
1 I would be very happy to spend the rest of my career with this organization.	0.78
2 I do not feel a strong sense of 'belonging' to my organization (R).	0.68
3 This organization has a great deal of personal meaning for me.	0.77
4 I do not feel like 'part of the family' at my organization. (R).	0.69
5 I really feel as if this organization's problems are my own.	0.68
6 I do not feel 'emotionally attached' to this organization (R).	0.74
<b>Perceived Organizational Support (POS)</b>	
1 Management shows very little concern for me (R)	0.87
2 Management cares about my general satisfaction at work	0.91
3 Management really cares about my well-being	0.91
4 Management strongly considers my goals and values	0.91
5 Management strongly cares about my opinions	0.89
6 Management takes pride in my accomplishments at work	0.81
7 Management is willing to extend itself in order to help me perform my job to the best of my ability	0.81
8 Help is available from management when I have a problem	0.84
<b>Leader-Member Exchange (LMX)</b>	
1 I usually know where I stand with my manager	0.80
2 My manager has enough confidence in me that he/she would defend and justify my decisions if I was not present to do so.	0.91
3 My working relationship with my manager is effective	0.88
4 My manager understands my problems and needs	0.91
5 I can count on my manager to 'bail me out,' even at his or her own expense, when I really need it	0.85
6 My manager realizes my potential	0.89
7 Regardless of how much power my manager has built into his or her position, my manager would be personally inclined to use his/her power to help me solve problems in my work	0.90

Note: N = 1286. All loadings are standardized. (R) = item reverse scored.

### *Discriminant Analysis (AOC, POS, LMX)*

Discriminant validity refers to the extent to which the items representing a latent variable discriminate that construct from other items representing other latent variables. In other words, discriminant analysis describes the distinctiveness of the construct. Since the three measures of employee attitudes are conceptually related, i.e. AOC, POS and LMX, and all were rated by the employees, a discriminant analysis was conducted to validate the distinctiveness of the three constructs. The scales comprising six items of AOC, eight items of POS and seven items of LMX were evaluated using confirmatory factor analysis. The results indicated that a three-factor model ( $\chi^2 = 1913.07$ ,  $df = 186$ ,  $RMSEA = 0.085$ ,  $CFI = 0.924$ ,  $IFI = 0.924$ ) fit the data better than a one-factor model ( $\chi^2 = 9346.99$ ,  $df = 189$ ,  $RMSEA = 0.194$ ,  $CFI = 0.598$ ,  $IFI = 0.599$ ) and thus, they support the distinctiveness of LMX, POS and AOC.

### *Controls*

A set of controls was included in order to rule out alternative explanations of the study findings, which is summarized in table 4-3. Employees' age, gender and organizational tenure are among the common individual characteristics being controlled for in previous studies of human resource management, psychological contract, job attitudes and social exchange, because these could influence employee responses to the variables in question (Boselie, et al., 2005; Mathieu & Zajac, 1990; Meyer, et al., 2002; Qiao, Khilji, & Wang, 2009; Raja, Johns, & Ntalianis, 2004; Rhoades & Eisenberger, 2002; Robinson, et al., 1994). Therefore, for this research, age, gender and bank tenure were controlled for the potential effects that these demographics could have had an influence on the study variables.

It should be noted that instead of bank tenure, branch tenure was controlled specifically for the variation on employee reports on the LMX, for this

could have been biased due to the length of employee tenure at the branch and hence, with their relations with the branch manager. In addition, it is also possible that people with different job roles would have varying levels of intensity in their association with the manager in day-to-day operations, which could be a factor in the strength of the LMX relationship. Therefore, employee position within the branch was included to control for LMX.

**Table 4-3**  
**A Summary of the Control Variables Included in the Individual Level Analysis**

Study Constructs	Control Variables						
	Age	Gender	Bank tenure	Position	Previous work experience	Branch size	Job level
<b>1 Perceived Level of HR Practices (HR)</b>							
1.1 HR: Ability (A)	Yes	Yes	Yes			Yes	
1.2 HR: Motivation (M)	Yes	Yes	Yes			Yes	
1.3 HR: Opportunity (O)	Yes	Yes	Yes	Yes	Yes	Yes	
<b>2 Perceived Organizational Obligation (Obl)</b>							
2.1 Obl: Ability (A~)	Yes	Yes	Yes				
2.2 Obl: Motivation (M~)	Yes	Yes	Yes				
2.3 Obl: Opportunity (O~)	Yes	Yes	Yes	Yes	Yes		
<b>3 Leader-Member Exchange (LMX)</b>							
4 Perceived Organizational Support (POS)	Yes	Yes	Yes				Yes
5 Affective Organizational Commitment (AOC)	Yes	Yes	Yes				Yes

Moreover, different branch sizes could have an impact on the distribution of HR resources, with the resulting possibility that the branch manager may not have been able to allocate resources in equal measure to the employees and thus, this could have had an impact on the LMX quality. Therefore, branch size based on the number of employees (3-5 staff = small, 6-10 staff = medium and >10 = large) was included to account for the potential that this would affect HR perceptions and their relationships with the supervisor (LMX).

Next, specific only to the opportunity to participate domain (O, O~), the respondents' position (e.g. customer service representative, service support officer and business development executive) and whether they had had previous work experiences before joining the bank, were controlled for (yes = 0, no = 1), because these might relate to the level of employee opportunity

for contributing and participating in branch activities. This potential variation has also been discussed in previous research (Nishii & Wright, 2008; Rousseau, 2001).

In addition, the hierarchical job level of the respondents was also addressed so as to account for its potential effect on POS and AOC, because high status tends to increase the levels both of perceived support and the motivation to be actively involved with organizational activities, which become apparent in such employees' reports of higher levels of commitment (Mowday, et al., 1982).

Finally, the employee performance bonus in the participating organisation was based on the sales performance of the branch and hence, it is to be expected that employees in the better performing branches would have exhibited greater commitment than had this situation been otherwise. In other words, a stronger magnitude of profit sharing could reinforce stronger employee bonding with the organization. Therefore, a control for its potential effect on the differential reports of AOC across branches was established by taking into account the corresponding per cent of sales achievement of previous year branch performance with the bonus pay out (per cent of sales achievement against target:  $\leq 70\% = 1$ ;  $71\%-80\% = 2$ ;  $81\%-90\% = 3$ ;  $91\%-100\% = 4$ ;  $>100\% = 5$ ). Details of the coding for the control variables are presented in appendix 4-1.

#### **4.4 Data Analysis and Results**

Latent variable structural equation modelling (SEM) with AMOS 16 (Byrne, 2009) was employed to test the proposed structural model and hypotheses. As explained earlier in chapter 3, the chi-square difference test ( $\Delta\chi^2$ ) was adopted for comparing the proposed model with competing or alternative models and the comparative fit index (CFI) (Bentler, 1990) and incremental fit index (IFI) (Bollen, 1989) were used for estimation of the

model fit. To this end, the model specification is first explained, which is followed by the testing of the hypotheses and reporting of the results.

#### 4.4.1 Model Specification

For the individual level analysis, the way in which employment experiences influence employees' commitment attitudes was examined. Drawing from

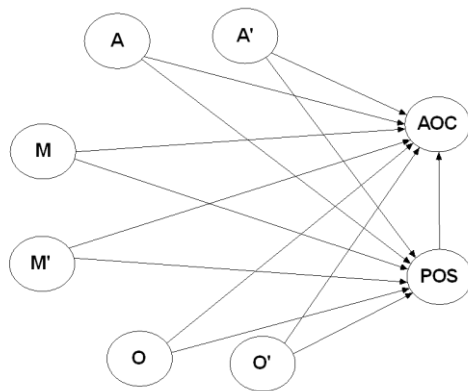


Figure 4-3a Path diagram specifying the hypothesized relationships between HR level, breach, POS and AOC.

two streams of the literature (HRM and psychological contract), this study captures employees' perceptions of HR level or the extent to which the employees have been receiving the practices in question, as one side of the employment experiences (referred to as A, M, O in figure 4-3a) and employee's perceived breach of the

practices as the other (referred to as A', M', O' in figure 4-3a). The contention here is that employees' commitment attitudes are generated by their experiences with the exchange content offered by the organization in the employment relations. In addition, through the application of the social exchange lens, it is posited that the perceived practices in the form of HR level and breach are seen by the employees as organizational management's commitment to them (POS), which in turn, influences the level of commitment attitudes they have with the organization (AOC). More specifically, it is hypothesized that there are linear directional influences of perceived intensity of HR practices (A, M, O) on POS/AOC, perceived breach of HR practices (A', M', O') on POS/AOC, and of POS on AOC (figure 4-3a).

Furthermore, scholars have argued that HR best practices contain bundle effects, whereby all of these need to be implemented simultaneously in order to be able to take advantage of the synergistic outcome (e.g. Pfeffer, 1994, 1998). Accordingly, it is possible that the three AMO

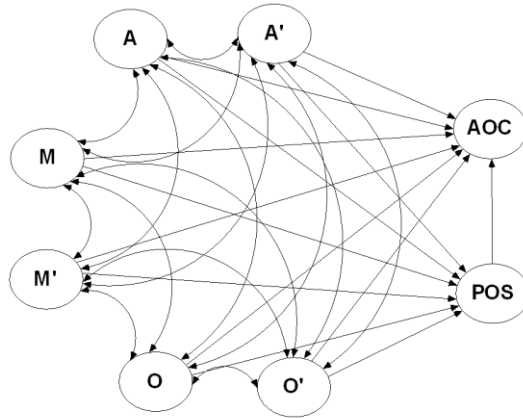


Figure 4-3b Covariance between HR level and breach constructs were added into the model drawn in figure 4-3a.

domains of HR practices and breach perceptions could have correlational relationships across one another attributable to the explanation of commitment attitudes and so to reflect this in the model, non-directional links or covariance between these constructs were added (figure 4-3b).

In addition, as discussed in subsection 4.2.4.4, the line manager is usually the person responsible for local management of HR practices and hence, their effectiveness in delivering employment practices can influence employees' HR and breach perceptions, which in turn, can affect the quality

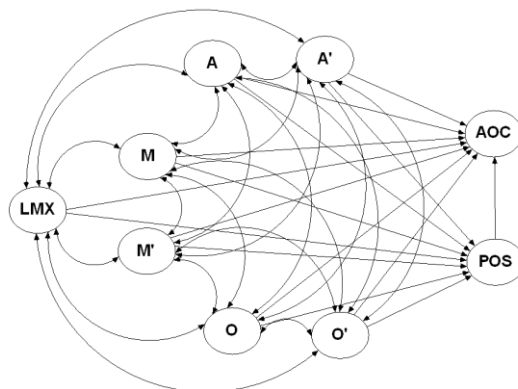


Figure 4-3c Path diagram specifying all the relationships of the study variables i.e. HR level, breach, LMX, POS and AOC.

of the leader-member exchange (Purcell & Hutchinson, 2007). Consequently, correlational associations between leader-member exchange (LMX) and organizational exchange contents (HR level and breach) were specified. Moreover, direct paths between LMX and POS/AOC were also included,

because these relationships have been substantially researched and reported upon in terms of their meaningful associations (Meyer, et al., 2002; Purcell & Hutchinson, 2007; Purcell, et al., 2003; Rhoades & Eisenberger, 2002;

Settoon, et al., 1996; Wayne, et al., 1997). Figure 4-3c shows the specification of all the relationships established for the analysis.

In sum, the specified structural model contains seven exogenous variables (variables that typically hold direct influences on one or more endogenous variables) including HR level (A, M, O), breach (A', M', O') and LMX and two endogenous variables (variables being influenced by other variables in the model), that is, POS and AOC. POS is hypothesized as being the mediating variable and hence, it is functioning both as an endogenous variable influenced by exogenous variables, i.e. HR level, breach and LMX and as an exogenous variable influencing the other endogenous variable, i.e. AOC. Figure 4-4 represents the complete model specification combining the measurement model and the structural relationships of the study variables.

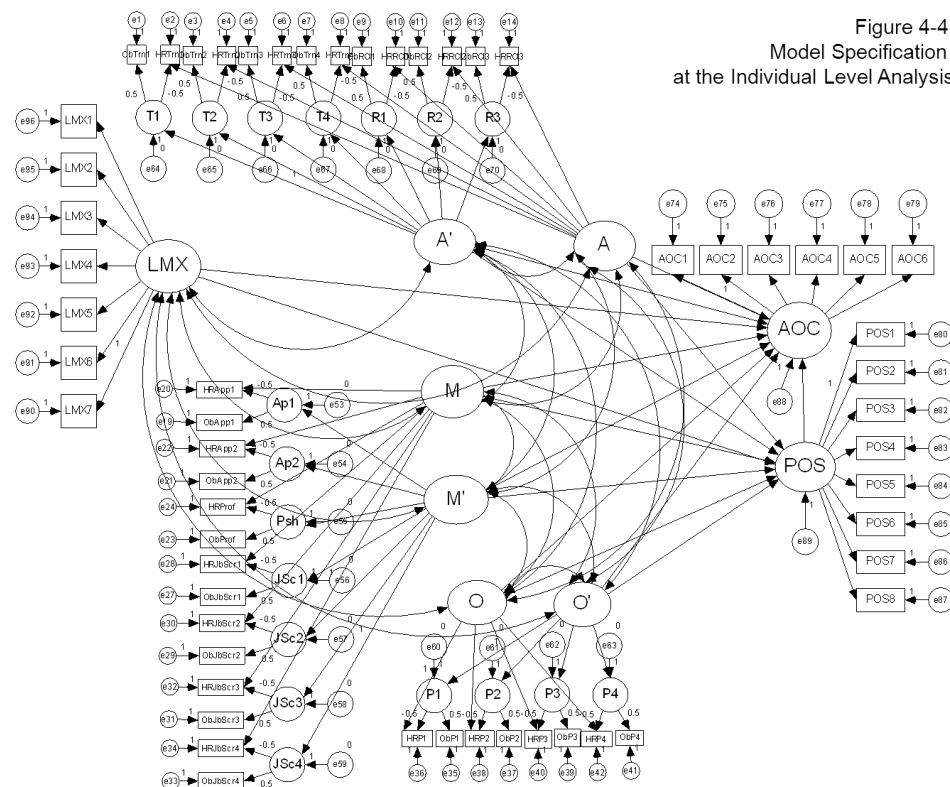


Figure 4-4  
Model Specification  
at the Individual Level Analysis

It should be noted that breach (A', M', O') was specified using a second-order factor model, in which it does not have its own set of measured indicators, but rather it is linked indirectly to those measuring the first-order



factors. As explained earlier in section 4.3.2, the latter are derived from the SEM-based latent congruence model (Cheung, 2009), which involve subtracting individual HR indicators from their corresponding perceived organizational obligation. That is, the first-order factors represent breach of individual HR practice and these factors are linear combinations of the second-order factors of breach constructs under the AMO domains.

An important feature of an endogenous variable involves the fact that generally it is not viewed as being perfectly and completely accounted for by those variables hypothesized to exert directional influences on the variable in question. Therefore, it is common to define each endogenous variable (e.g. POS, AOC) as being influenced also by an error term, which represents that part of the endogenous variable that is not accounted for by the linear influences of the other variables in the model. Similarly, it should also be noted that the first-order factors of breach constructs (see for example, Ap1, P1, T1, and so on in figure 4-4) also function as dependent or endogenous variables and hence, residual error terms associated with each of these first-order factors are also assigned.

Rindskopf and Rose (1988) explained that the second-order factor model, where the unique variances of the first-order factors are set equal to zero, is equivalent to the one factor model wherein all the observed variables are linked directly to the construct. They suggested that the researcher can choose among models which fit on the basis of theoretical plausibility. In other words, the measurement models of breach constructs are statistically invariant, if for example, breach A' is specified as a one factor model, wherein all HR and obligation items link directly to the construct. Or alternatively, it can be taken as being a second-order factor model, wherein the first-order factor represents the discrepancy of each pair of HR and obligation and in which its residual is constrained to zero, and subsequently, these first-order factors are specified to have linear combinations of breach A'. For the current study, the second-order factor model, as suggested by Rindskopf and Rose, is considered more theoretically relevant, because it allows for the precise capture of breach perceptions relating to each pairing

of the HR and obligation items, which subsequently lead to an accurate specification of breach for each facet of the employment practices (e.g. training, job security, participation) and respectively, for the overall specification of each of the breach domain (A', M', O'). Therefore, the unique variance associated with the first-order factors of breach measures is constrained to zero (see e53 – e70 in figure 4-4). In total, there are 57 manifest variables, 104 unobserved variables, 84 exogenous variables and 77 endogenous variables in the model, which are all included for the hypotheses testing, the results of which are presented below.

#### **4.4.2 Hypotheses Testing and Results**

In this subsection, the results regarding the hypothesized relationships of the study variables developed earlier in this chapter are considered. To this end, structural equation modeling was conducted using maximum likelihood estimation (AMOS 16). The results for the descriptive statistics of the study constructs are first reported and this is followed by findings from the testing of the hypotheses.

##### *Descriptive Statistics*

Table 4-4 presents the means, standard deviations, reliability coefficients, and zero-order correlations for all the study variables and it can be seen that all of the correlations were statistically significant. More specifically, the HR domains (A, M, O) were all positively correlated and likewise for the breach measures (A', M', O'). The HR level and breach factors were negatively correlated and a stronger association was found when the corresponding domains of HR level and breach (e.g. A and A') were paired. LMX, POS and AOC were correlated positively with HR level and negatively with breach variables, in which POS seemed to have a stronger connection with HR level and breach than did LMX and AOC. All three breach variables had weak links with commitment attitudes, but all were

statistically significant. These preliminary relationships indicate that all the variables performed consistently with their related concepts and theories and hence were robustly valid for further testing.

**Table 4-4**  
**Descriptive Statistics and Correlations**  
**The Individual Level Analysis**

Measure	<i>M</i>	<i>SD</i>	1	2	3	4	5	6	7	8	9
1 HR practices (A)	4.66	0.99	(.88)								
2 HR practices (M)	4.78	0.99	.72 **	(.80)							
3 HR practices (O)	4.19	1.09	.70 **	.64 **	(.81)						
4 Breach (A')	0.90	1.15	-.62 **	-.35 **	-.45 **	(.86)					
5 Breach (M')	0.85	1.12	-.37 **	-.56 **	-.39 **	.63 **	(.76)				
6 Breach (O')	1.14	1.33	-.36 **	-.30 **	-.66 **	.69 **	.61 **	(.76)			
7 LMX	4.53	1.30	.39 **	.45 **	.54 **	-.14 **	-.18 **	-.27 **	(.95)		
8 POS	4.28	1.11	.64 **	.63 **	.61 **	-.39 **	-.36 **	-.35 **	.51 **	(.95)	
9 AOC	5.03	0.99	.41 **	.45 **	.37 **	-.08 **	-.09 **	-.08 **	.42 **	.50 **	(.82)

Note: *N* = 1286. Scale score correlations are given below the diagonal. Internal reliabilities (coefficient alpha) are given in parentheses along the diagonal. A = ability; M = motivation; O = opportunity to participate; LMX = leader-member exchange; POS = perceived organizational support; AOC = affective organizational commitment. Breach details are obtained from general algebraic subtraction to provide preliminary results of the relationships between breach and other study variables.

\*\* *p* < .01

\* *p* < .05

### *Testing of the Hypotheses*

First, the results related to the development of structural model are presented, which include the test of the integrative model (H10) to observe the extent that the elements described in the social exchange, i.e. the quality of exchange content and exchange party, provide a meaningful contribution to explain employee commitment responses at the individual level of the HR-performance process. Next, based on the result of H10, the mediating role of POS in the model was further assessed (H5 and H7). By doing so, it was then possible to identify the best fit model to test the other hypotheses associated with the path relationships between the study variables (H1.1, H1.2, H1.3, H2.1, H2.2, H2.3, H3, H4.1, H4.2, H4.3, H6.1, H6.2, H6.3, H8 and H9).

### *Testing of the Integrative HR-Performance Model*

A chi-square difference test was enlisted to test hypothesis 10, which predicts that the exchange relationship between the employer and the employee at the individual level of the HR-performance process is better explained when POS, LMX, HR level and breach are included in the model. To operationalize the test (see table 4-5), Model 1 was used as the basis for the nested-models comparison procedure, in which all the relationships between the latent constructs specified in figure 4-4 were freely estimated. In other words, this hypothesized model was compared with several alternative models by nesting them in this baseline model. For example, for Model 2 the notion of there being a symbiotic form of HR-LMX relationship was ignored and thus, all the estimates related to LMX were constrained to zero. Whereas, for Model 3 this relied on the premise that POS is not important and should be excluded, so all the paths and covariance related to POS were set to zero. Whilst in Model 9, it was assumed that only HR level could explain employee commitment, hence only the three HR-AMO domains were freely estimated and all other links in relation to the hypothesized constructs were constrained to zero.

As shown in table 4-5, the results of the nested-models comparison suggest that the complete theoretical model ( $\chi^2$  (1503,  $N = 1286$ ) = 6476.76, RMSEA = 0.05, CFI = 0.90, IFI = 0.90) is better than the competing models. These results indicate that employees' perceptions of the quality of exchange content, i.e. HR level and breach, and their experiences with the exchange parities, i.e. LMX and POS, are important for explaining their reciprocation in the form of organizational commitment attitudes in the HR-performance causal chain. Having included all these explanatory variables into the model, would appear, therefore, to enhance understanding of the sources of employee outcomes variation in the HR implementation. That is, Hypothesis 10 is supported and the model related to this, namely Model 1, is used as the baseline model to test next for the mediating role of POS.

**Table 4-5**  
**Comparison of Structural Equation Models**  
**Testing of the Integrative HR-Performance Model at the Individual Level Analysis**

Model	Factors	$\chi^2$	df	$\Delta\chi^2$	RMSEA	CFI	IFI
<b>Model 1</b> <i>baseline</i>	All variables (i.e. HR level, breach, LMX and POS) and their structural relationships specified in figure 4-4 are freely estimated.	6476.76	1503	--	0.05	0.90	0.90
<b>Model 2</b>	LMX and its related paths and covariances are constrained to zero.	6876.99	1511	400.24***	0.05	0.89	0.89
<b>Model 3</b>	POS and its related paths are constrained to zero.	7276.51	1511	799.76***	0.05	0.88	0.88
<b>Model 4</b>	HR level (A, M, O) and their related paths and covariances are constrained to zero	12220.19	1524	5743.43***	0.07	0.78	0.79
<b>Model 5</b>	Breach (A', M', O') and their related paths and covariances are constrained to zero.	11570.43	1524	5093.67***	0.07	0.80	0.80
<b>Model 6</b>	All estimates related to HR and breach contents are constrained to zero.	12219.17	1533	5742.42***	0.07	0.78	0.79
<b>Model 7</b>	All estimates related to breach (A', M', O') and LMX are constrained to zero.	11913.43	1529	5436.67***	0.07	0.79	0.79
<b>Model 8</b>	All estimates related to breach (A', M', O') and POS are constrained to zero.	12156.85	1529	5680.09***	0.07	0.79	0.79
<b>Model 9</b>	All estimates related to breach (A', M', O'), LMX and POS are constrained to zero.	12453.94	1533	5977.18***	0.07	0.78	0.78

Note: N = 1286. HR level = perceived level of HR practices in AMO domains; breach = breach of HR practices in AMO domains; LMX = leader-member exchange; POS = perceived organizational support; AOC = affective organizational commitment; RMSEA = root-mean-square error of approximation; CFI = comparative fit index; IFI = incremental fit index.

\*\*\*  $p < .001$

\*\*  $p < .01$

### *Testing of Mediating Role of POS*

The zero-order correlations between HR level (AMO), breach (A'M'O'), POS and AOC presented in table 4-4 provide preliminary evidence to support the subsequent testing of the mediating effect stated in Hypotheses 5 and 7, which predict that POS mediates HR-AOC and breach-AOC relationships respectively. These hypotheses were tested through a nested-models comparison using a significance test of chi-square difference, based on the number of degree of freedom (table 4-6). Model 1, the baseline model, represents a partially mediating model, wherein the paths from HR/breach to both POS and AOC are freely estimated. The alternative models, nested in Model 1, are: Model 10, suggesting a complete POS mediation in the relationships and hence, the direct effects from HR /breach to AOC were constrained; Model 11, providing a test of full mediation of POS only on HR-AOC relationships and so the HR-AOC paths were set to

zero; and Model 12, testing a full mediation of POS only on breach-AOC relationships and so the breach-AOC links were set to zero.

As shown in table 4-6, on the basis of the sequential chi-square difference tests, Model 12 is the only competing model that gives a non-significant difference when compared with the baseline model, Model 1. That is, the increasing of the chi-square values with three additional degrees of freedom resulting from constraining breach (A', M', O') and AOC paths to zero, are not statistically significant ( $\Delta\chi^2_{\text{Model 12}} (\Delta df = 3) = 4.03, p = .323$ ), indicating that these constrained paths do not improve the fit of the model. This suggests that Model 12 is a better fit of model to the data, in which a complete mediation of POS on breach-AOC relationships is supported (H7) and so too a partial effect on HR-AOC associations (H5).

**Table 4-6**  
**Comparison of Structural Equation Models**  
**Testing of POS Mediating Effect**

Model	Factors	$\chi^2$	df	$\Delta\chi^2$	RMSEA	CFI	IFI
<b>Model 1</b> <i>baseline</i>	The structural relationships among the latent constructs specified in figure 4-4 are freely estimated. POS partially mediates both HR level and breach.	6476.76	1503	--	0.05	0.90	0.90
<b>Model 10</b>	All the paths from HR and breach to AOC are constrained to zero. POS fully mediates HR level/breach and AOC relationships.	6570.92	1509	94.16***	0.05	0.90	0.90
<b>Model 11</b>	Only the links from HR level to AOC are constrained to zero. POS fully mediates HR-AOC but partially mediates breach and AOC relationships.	6492.20	1506	15.44**	0.05	0.90	0.90
<b>Model 12</b>	Only the links from breach to AOC are constrained to zero. POS partially mediates HR level-AOC but fully mediates breach and AOC relationships.	6480.79	1506	4.03	0.05	0.90	0.90

Note: N = 1286. HR level = perceived level of HR practices in AMO domains; breach = breach of HR practices in AMO domains; LMX = leader-member exchange; POS = perceived organizational support; AOC = affective organizational commitment; RMSEA = root-mean-square error of approximation; CFI = comparative fit index; IFI = incremental fit index.

\*\*\*  $p < .001$

\*\*  $p < .01$

Thus far, these results indicate that all the key explanatory variables specified in the hypothesized model are important in explaining the employee commitment development process and that the structural relationships among these constructs better explain the data when POS partially mediates the links between HR level and AOC and when it

functions as the complete mediator in breach and AOC relationships. That is, Model 12 is the best fit model to the data ( $\chi^2(1506, N = 1286) = 6480.79$ , RMSEA = 0.05, CFI = 0.90, IFI = 0.90) and thus, the other hypotheses related to path estimates are tested based on this best fit model, as explained next.

### *Tests of Structural Path Relationships*

Figure 4-5 illustrates the employee commitment development model as it was structurally assessed<sup>9</sup>. The paths identified from HR-motivation (M) to POS and AOC exhibit significant estimates of 0.35 and 0.17, respectively, and hence support H4.2 and H1.2, whereas whilst HR-ability (A) has a positive relationship with POS (H4.1 is accepted), this is not so for AOC (H1.1 is rejected).

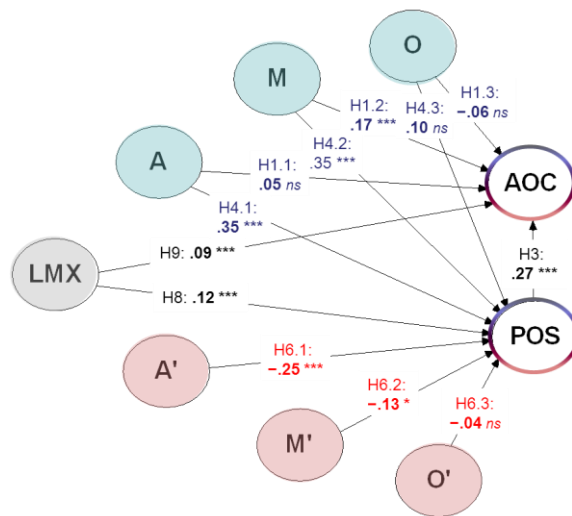


Figure 4-5 Structural Path Estimates at the Individual Level Analysis (unstandardized path estimates)

Note: Measurement models and covariance among exogenous variables are not shown in the figure. Data centred method is used to account for controls effect.

\*\*\*  $p < .001$   
 \*\*  $p < .01$   
 \*  $p < .05$

The organizational exchange content in the opportunity domain (O and O') neither provides a meaningful relationship with POS nor AOC and hence,

<sup>9</sup> Path Estimates of the full specification model as presented in figure 4-4 can be found in appendix 4-2.

H1.3, 4.3 and 6.3 are not supported. The links from breach of ability (A') and motivation (M') domain to POS are also significant, with estimates of -0.25 and -0.13, respectively, suggesting that breach-A' and breach-M' impact negatively on POS and thus H6.1 and H6.2 are supported. The estimates for LMX to POS and AOC of 0.12 and 0.09, respectively, are also significant, hence providing support for H8 and H9. Finally, the results also support H3 that POS is positively associated with AOC, with the estimate for the POS to AOC link being 0.27.

## **4.5 Discussion**

Overall, the results provide evidence for addressing research questions 2, 3 and 4 that were set out in chapter 2 and thus, this multidisciplinary study has responded successfully to calls for research that integrates employee psychological contract and social exchange theory with HR-performance investigation (Boxall & Purcell, 2008; Boxall, et al., 2007; Coyle-Shapiro & Shore, 2007; Nishii & Wright, 2008; Wright & Boswell, 2002; Wright & Gardner, 2003). With respect to this, by drawing on the social exchange theory this researcher has elicited that the variance of employee commitment is jointly explained by the quality of both the exchange content and the exchange party responsible for delivering this content. These relationships are discussed in more detail below.

The findings provide support for most of the hypothesized relationships. First, it has emerged that there exists an affective process or an exchange of affective commitment between employee and employer, whereby employees reciprocate the senior management's commitment to their care and support (POS) with their own commitment to the organization (AOC;  $\beta = 0.27, p < .001$ ), which is consistent with the established results in prior research (e.g. Rhoades & Eisenberger 2002; Meyer, et al., 2002). Similarly, in line with previous research (e.g. Gerstner & Day, 1997; Wayne, et al., 1997), the perceived relationship between line managers and employees or leader-member exchange (LMX) have been found to have an



influence on their assessment of management's care and support ( $\beta = 0.12, p < .001$ ) and on their commitment responses ( $\beta = 0.09, p < .001$ ). Taken together, these results have pointed to the critical role of the organizational agents, i.e. senior management and line manager in commitment development among employees.

Second, the results are consistent with Purcell and Hutchinson (2007), in that they provide evidence of a symbiotic form of relationships existing between the line manager (LMX) and HR practices at the individual level of the HR-performance process. In this regard, as shown in table 4-5, the restricted models were worse fit when the paths related to HR/breach and LMX were constrained to zero (i.e. Model 2, 4, 5 and 6), illustrating that employee commitment attitudes are informed by both their experiences with the HR content and the supervisor. Although it has been intensively argued in the literature that the role of the line manager has an impact on employee perceptions of HR practices in the HR enactment process (Boxall & Purcell, 2008; Boxall, et al., 2007; Coyle-Shapiro & Shore, 2007; Nishii & Wright, 2008; Purcell & Kinnie, 2007; Wright & Nishii, 2004), this current research is one of the first empirical studies to investigate, systematically, the relationship of the line manager with HR practices in the HR-performance process (cf. Purcell & Hutchinson, 2007).

Next, the results also show that employees differ in their conceptualizations of breach and HR level in terms of their commitment responses. In this regard, the findings of there being a full mediation effect of POS on breach and AOC relations suggests that employees completely associate organizational unfulfilled obligation with their understandings of poor management commitment towards them. The breach notion, however, does not significantly decrease their commitment to the organization after taking into account of all other influences hypothesized in the model. It emerged that employees, on the other hand, attributed HR level over and above perceived organizational support to have a direct impact on the increase in their commitment responses. Taking these findings together, they show how having both types of HR experiences (perceived HR level/breach) in a

single analysis provide useful insights illustrating that employee commitment development involves different routes being taken for HR level and breach. The findings also seem to suggest that HR provision tends to outrank the breach notion on the development or breakdown of employee organizational commitment, because breach (A'M'O') and AOC associations, where statistically significant, emerged as having a relatively smaller magnitude of effect than those in relation to HR level (AMO) and because the HR level has direct effects on AOC as well as the indirect ones through POS.

In addition, the path analyses revealed that the three domains of the employment practices: ability (A), motivation (M) and opportunity to participate (O) have different levels of impact on the engendering of employee commitment reciprocation. With regard to this, organizational inducement associated with the opportunity to participate domain, in both terms of HR level and breach, was not found to be significantly related to the development of employee commitment. That is, the degree of involvement and participation and breach of which, explain neither employee gratitude (POS) nor their response regarding their commitment level (AOC). These findings starkly contrast with prior research that has suggested employee participation positively affects performance (e.g. Wright & Boswell 2002), particularly among studies of total quality management (TQM) (e.g. Lawler, Mohrman, & Ledford, 1995). One possible explanation for this might be that the nature of employee involvement in the TQM studies was specific to or targeted on a particular set of outcomes related to TQM initiatives (Ajzen & Fishbein, 1977). Therefore, whereas what has been found in the TQM studies is the impact of employee participation on TQM success measures, such as: improvement of work performance, product improvement, productivity and profitability (Lawler et al., 1995), in the case of this research, with its target being on the organizational affect, this is a much broader focus and hence, this perhaps explains why the relationships of O, O' with POS/AOC emerged as being insignificant.

Turning to the ability and motivation domain, it was found that employees interpret the degree of the organization's commitment to them (POS) according to the extent that it has provided them with, and fulfilled its obligation in, the practices constituting these two domains. More specifically, POS was found to be equally explained by the employees' perceptions of the received practices in the HR-A and HR-M domains, ( $\beta = 0.35, p < .001$ ), with these practices including the level of training and role clarity in the HR-A component and job security, objective performance appraisal and rewards in the HR-M domain. By contrast, POS was undermined when employees experienced a perceived breach in the employment relationship, with the diminishing effect of breach of ability (A':  $\beta = -0.25, p < 0.001$ ) being twice the size that of motivation (M':  $\beta = -0.13, p < 0.05$ ) and notably the breach-A' was more strongly significant. It is possible that employees base their assessment of breach-M' on the fact that this could be as a result of something beyond organizational control, such as: the market situation, interventions from central bank and business competitors, whereas employees understandings of breach-A' perhaps lean towards the idea that management is unwilling to provide them with what was promised and hence, there is a relatively stronger negative impact on POS (Shore & Tetrick, 1994).

Finally, the findings reveal that only the perceived level of the motivation domain (HR-M) has a direct effect on employee commitment ( $\beta = 0.17, p < .001$ ). In other words, as well as having an indirect effect on AOC through POS, as discussed earlier, HR-M has a direct impact on the commitment responses. This indicates that employees associate the provision of motivating practices above and beyond the organizational support conception and this could be attributed to the content constituting this particular domain. That is, job security, performance rewards and profit-sharing are more related to organizational achievement and long term business continuity and hence, the provisional level of these practices in the HR-M component could well reinforce employees' identification with and involvement in the organization. By contrast, employees' assessment of the level of the ability domain (HR-A), i.e. role clarity and training, could

possibly reflect that such factors capture only the short term accomplishment of current job assignments. Put differently, according to the compatibility theory of initiatives and target outcomes (Ajzen & Fishbein, 1977), it is possible that the perceived level of HR-A initiatives is perhaps most closely associated with employee satisfaction and engagement with the job, whilst that of the HR-M initiatives is driven by their emotional attachment to the organizational goals and objectives or organizational commitment attitudes. Therefore, it appears that not only is there an indirect link with POS being the mediator, but also a direct link between HR-M and AOC.

### *Practical Implications*

The findings demonstrate that the three domains of employment practices, i.e. ability, motivation and opportunity to participate do not share common effects regarding outcomes, thus suggesting that HR practitioners and business managers should strategically utilize these practices in order to gain the optimum results. In this regard, the organization, when it is affordable, should focus on devising more comprehensively the practices in the motivation domain (HR-M), minimizing any breach of ability (breach-A'), and where possible, maintaining the opportunity to participate (HR-O). The strong HR-M situation (Bowen & Ostroff, 2004) should be taken into account during the implementation. This is because effective organizational communication on the issues related to the practices belonging to the HR-M domain and consistency in their delivery would ensure employee recognition of management goodwill and strong support. Employees would, in turn, reciprocate the organization's strong commitment to them with a mirroring of these sentiments. This emphasis is justified in the findings, for an increase in the perceived level of HR-M would result in 46%<sup>10</sup> improvement of commitment variance, which represents by far the

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<sup>10</sup> Standardized total effect (direct and indirect effect) of HR-M on AOC is calculated by adding direct effects (HR-M on AOC: 0.30) to the indirect effect (HR-M on POS: 0.52\*POS on AOC: 0.31 = .16).

strongest impact when compared to the other HR domains (HR-A: 15%<sup>11</sup>; HR-O: null<sup>12</sup>).

Organizational managers are also advised to minimize breach perceptions, particularly in the breach-A' domain, because positive actions regarding HR level, which are found to increase up to 15% in employee commitment would be reduced to almost nothing (2%)<sup>13,14</sup>, if their efforts were construed as representing breach. Finally, whilst both HR-O and breach-O' were not found to have effects on POS and AOC, the importance of the opportunity to participate domain should still be recognized. This is because it would allow for situations where employees could demonstrate their abilities and discretionary efforts to improve their performance (Blumberg & Pringle, 1982; Gerhart, 2007a). Until more research is undertaken so as to shed light on the interrelationships among the AMO performance drivers, organizational managers, where possible, should be advised to maintain the level of employee participation, because there is no evidence that it has a detrimental effect on employee performance.

Apart from strategic allocation of the resources, HR managers could also directly increase employee commitment level by improving their perceptions of organizational support. With respect to this, Rhoades and Eisenberger (2002) suggested that besides job conditions and rewards, procedural justice is another key antecedent contributing to POS and therefore, HR managers should also take into account the ways in which the resources are distributed among the employees on implementation (Nishii & Wright, 2008; Wright & Nishii, 2004). In addition, to be effective, HR practitioners should partner with line managers in the HR implementation process. Furthermore, the relationship between line managers and their staff

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<sup>11</sup> Standardized total effect of HR-A on AOC includes only its indirect effect, because the direct effect is reported non-significant. This is calculated by multiplying the effect of HR-A on POS (0.47) with the effect of POS on AOC (0.31) resulting in 15% total effect size.

<sup>12</sup> All estimates related to the O domain and outcomes are reported non-significant.

<sup>13</sup> Standardized total effect of breach-A' on AOC includes only its indirect effect, because the direct effect is reported non-significant. This is calculated by multiplying the effect of breach-A' on POS (-0.42) with the effect of POS on AOC (0.31) resulting in -13% total effect size. Total effect of HR-A and breach-A' on AOC (15% - 13%) = 2%.

<sup>14</sup> Total effect of HR-A and breach-A' on AOC (15% - 13%) = 2%.

members should always be monitored and improved, because employees could interpret management intent regarding employment practices through their relationships with their line managers.

### *Limitations and Directions for Future Research*

There are certain limitations that need to be taken into account when interpreting the findings. First, for the individual level analysis, cross-sectional data was used and as with previous research (Wright & Boswell 2002, Conway & Briner 2005) that has explored associations between HR level/breach and work or employee outcomes, the causality cannot be inferred. However, the causal arrows depicted in figure 4-4 are based on the underlying theories and prior findings from HRM, job attitudes and social exchange literatures (Arthur, 1994; Boxall & Purcell, 2008; Conway & Briner, 2005; Eisenberger, et al., 1986; Lepak, et al., 2006; Meyer, et al., 2002; Purcell & Kinnie, 2007; Rhoades & Eisenberger, 2002; Rousseau, 1995; Wright & Boswell, 2002; Zhao, et al., 2007).

Second, the subcomponents of HPWS were tested based on the AMO framework (cf. Appelbaum, et al., 2000), rather than the HR system as a whole (e.g. Arthur, 1994), so as to illustrate the relationship of each of these performance drivers in the HR-performance process. Whilst the systems approach to data analysis has provided overarching understanding of the systems as a whole regarding their effects on outcomes (e.g. high commitment HR model: Arthur, 1994; HPWS: Pfeffer, 1998), this researcher is of the opinion that treating the HR construct under the AMO domains allows for the capture of the differential impacts of each exchange content domain on employee understandings of organization's commitment to them and the resulting variation of their reciprocity. Therefore, it is posited that this approach can provide a more holistic understanding of the AMO performance drivers in HR-performance relationships (Gerhart, 2007a: 321). Indeed, Guest (2011), among others (e.g. Boxall & Purcell 2008; Gerhart, 2007; Lepak et al., 2006), has recently argued for a

systematic use of AMO components in HR-performance investigation. Future research could extend the AMO model to incorporate other HR initiatives excluded from this analysis, such as: job design and empowerment. Moreover, explicit testing of the relationships among the three AMO domains to explain employee commitment development would also be beneficial, especially because this could unveil the role of the opportunity to participate domain in the relationship.

Third, the fact that the respondents were asked to rate their relationship with their line manager (LMX), perceived organizational support (POS), and their commitment attitudes (AOC), could have resulted in a common method bias, which would have inflated the estimates of the strength of employee reports of their relationships with the organization. However, the discriminant analysis indicated that these variables are sufficiently distinct (subsection 4.3.2), and the correlational levels amongst them are consistent with those of previous research (e.g. Wayne, Shore & Liden, 1997). Therefore, it appears that the common method effects did not significantly influence the findings.

Last, the generalizability of the findings could well be limited, for the data, whilst adding more evidence from a non-Western country to the theories which have been derived in the context of the West, has been drawn from a country-wide sample of customer service representatives (CSRs) from a Thai retail bank. However, despite this lack of generalizability, the restriction to a single occupation from the same organization, could, in fact, be considered one of the strengths of the study, because it has been possible to rule out superfluous factors, such as: the availability of HR practices made for the role holders, organizational culture and other work related procedures, that might have otherwise provided alternative explanations regarding the relationships (Gerhart, 2007b; Gerhart, et al., 2000; Lepak & Snell, 1999; Wright & Gardner, 2003). Nevertheless, it is recommended that future studies aimed at extending the findings of this study should use data collected from other occupations and from different work settings.

## **4.6 Conclusion**

The results of the study support the contentions of social exchange theory in the context of HR-performance investigation in that employee reciprocation to the organization in the form of affective organizational commitment is driven by their perceptions of the total organizational offer. This encompasses employee experiences with both the perceived quality of organizational exchange content (HR level/behavior) and perceived quality of the organizational exchange parties in delivering HR practices (POS and LMX) in the course of HR implementation. This individual level analysis of the HR-performance investigation has made several important theoretical and methodological contributions to SHRM research. First, it is a pioneering study that methodologically incorporates psychological contract breach and HR level into a single analysis of the HR-performance relationships, thus adopting the perspective that the impact of HR initiatives on employee commitment responses can be undermined if the employees perceive breach of the practices in delivery. Second, the use of systematic testing of the symbiotic relationship between HR and line managers has been fruitful in that it has provided empirical support for the critical role of the line manager in facilitating and improving the quality of the exchange relationship between the organization and the employee and hence, potentially enhancing employee outcomes. Finally, investigating the exchange content based on the AMO framework has revealed insights into the variation of employee responses to each domain of these performance drivers and their differential impacts on commitment. Whilst additional scholarship is needed to explore further the integrative features of HR level, psychological contract, LMX and POS, it is hoped that this research endeavour has provided a useful starting point for future work that takes a multidisciplinary approach to the HR-performance relationship at the individual level.



## Chapter 5

### The Unit Level Analysis

#### 5.1 Introduction

This chapter continues on from the previous one by examining the linkages between HR outcomes arising from employees' assessment of the exchange content and the exchange parties in the employment relationship and business sales performance. The analysis in the previous chapter, which has addressed research questions 2-4 and hypotheses 1-10 (figure 4-1), elicited that employee commitment responses can be driven by the quality of HR implementation, in that employees' conceptions of organizational commitment are informed by their perceived quality of the HR content, i.e. HR level and breach and by the perceived quality of the organizational agents responsible for delivering this, i.e. perceived organizational support and leader-member exchange.

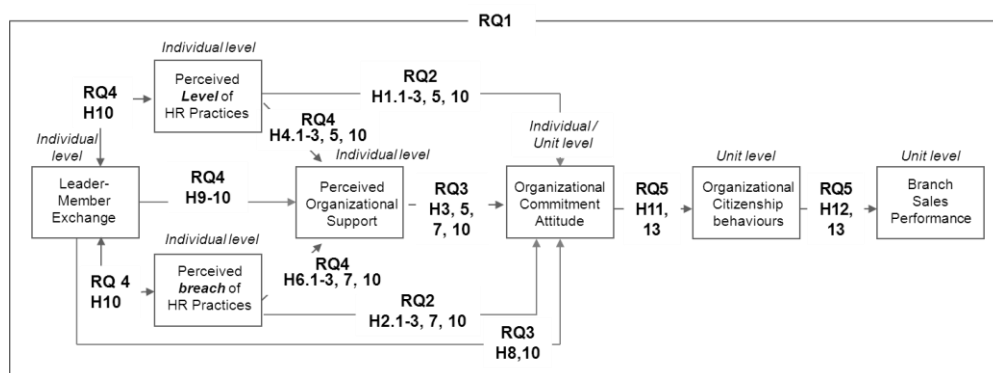


Figure 4-1 The Associations of the Research Questions and Hypotheses with the Proposed Research Framework

In this chapter, the individual-organizational performance linkages are explored by taking into account the multilevel linkages between employee commitment attitudes, unit level organizational citizenship behaviours (OCB) and branch sales performance. That is, the unit level analysis, as shown in figure 4-1, is geared at addressing research question 5 and to this

end, hypotheses 11-13 are proposed and tested along with the results being discussed in this chapter.

Previous research has adopted group level analysis to test the impact of HR outcomes on business performance and in such studies the outcomes have been conceptualized either in the form of commitment attitudes (Wright, et al., 2003) or as OCB (Sun, et al., 2007). As a result, it remains unclear how attitudes can theoretically explain variance in business performance (Ostroff, 1992, 1993; Ryan, Schmit, & Johnson, 1996) and how HR practices can impact directly on employee discretionary behaviours (Ostroff & Bowen, 2000; Purcell & Kinnie, 2007). In the next stage of this empirical research, the extant literature on both commitment attitudes and OCB is built upon with the aim to demonstrate that there is a sequential effect of a causal nature, whereby favourable employee attitudes feed into behavioural outcomes, which in turn, have a positive impact on business results. By so doing, this researcher is responding to the need for multilevel HR and business performance research that incorporates employee outcomes to elicit the nature of HR and business performance linkages (Becker & Huselid, 2006; Boselie, et al., 2005; Guest, 1997; Ostroff & Bowen, 2000; Wright & Boswell, 2002; Wright & Gardner, 2003).

## **5.2 Literature Review**

### **5.2.1 Organizational Effectiveness**

Scholars have put forth that an organization is a dynamic entity that comprises the formal structure of work roles and processes and the informal networks of people's interactions (Barnard, 1938; Katz, 1964; Katz & Kahn, 1978; Kopelman, Brief, & Guzzo, 1990; Organ, 1988; Ostroff, 1993). Further, they have also contended that organizational effectiveness is not only limited to the prescribed role behaviours as being identified in the

formal structure, although these do contribute directly to the goals of the organization, but it also involves informal role behaviours, such as: spontaneous behaviours, cooperation and collaborative efforts. This latter group of behaviours, according to Organ (1988), can be grouped under the term citizenship behaviour, which, when present, can result in enhanced levels of organizational performance. This is because such behaviours facilitate task interdependencies at the organizational level, support work activities and help employees to contribute to the performance of others. Moreover, the aggregate effects of these behaviours have been found to generate business value that contributes to long-term organizational success (Podsakoff, et al., 2009; Podsakoff, et al., 2000; Whitman, et al., 2010).

In addition, these informal role behaviours have also been contended as being essential for service organizations, especially those with employees who have a high degree of customer contact, as these workers need to deal with the fluctuating demands of customers during the service encounter (Bowen & Schneider, 1988; Frenkel, 2000; Gelade & Young, 2005; Haskett, et al., 1997; Koys, 2001; Mowday, et al., 1982; Zeithaml, et al., 1990). Moreover, during these encounters with customers spontaneous give-and-take and collaborative efforts are required to enable staff to cope with the dynamic environment so as to provide a service quality that can impress and satisfy customers.

### **5.2.2 Organizational Citizenship Behaviour (OCB)**

Organ (1988: 4) defined organizational citizenship behaviour (OCB) as:

“..individual behaviour that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization. By discretionary, we mean that the behaviour is not an enforceable requirement of the role or the job description, that is, the clearly specifiable terms of the person’s employment contract with the organization; the behaviour is

rather a matter of personal choice, such that its omission is not generally understood as punishable”.

According to the above, the three essential elements that constitute OCB are non-contractual rewards, discretion and contributions to organizational effectiveness. For discretionary, Organ explained that OCB is not an enforceable requirement of the job and not a part of the job description, but rather it is the performance that supports the organizational, social and psychological environment in which task performance takes place. Non-contractual rewards denote the behaviours not being directly or formally compensated by the organization’s reward system. Lastly, OCB contributes to organizational performance, which is the most important feature among these three elements. With regards to this, the majority of previous research endeavours have led to the conclusion that once OCB is established it can contribute to the performance of others in an organization, and in time, evolve into group behaviour, which can then lead to a positive influence on organizational performance (Podsakoff, et al., 2009; Podsakoff, et al., 2000; Whitman, et al., 2010). Empirically, a meta-analysis carried out by Podsakoff et al. (2009) revealed that time-lag studies of unit level OCB and business performance reported significantly stronger positive correlations than those established in cross-sectional studies, thus reinforcing the claim that the formation of such group behaviours needs time before they lead to fruitful outcomes for the business.

Organ (1997) also recognized that in dynamic contemporary organizations many jobs do not have contractual agreements nor specified levels of guaranteed rewards and in such cases discretionary effort may be regarded as an assumed element of the job requirements. This gives rise to the situation where the boundary between discretionary OCB and in-role performance, as defined by the formal structure of job requirements and/or task performance criteria, becomes blurred. However, in his opinion, these two elements of OCB still remained as he had defined them earlier in 1988, but differed by degree from in-role behaviours, regarding the levels of enforceable job requirements and guarantee of systematic rewards. Another

meta-analytical report of 112 studies on this particular matter concurred with this view that OCB and task performance are highly correlated, but remain distinct in essence (Hoffman, Blair, Meriac, & Woehr, 2007).

Furthermore, in the wider literature it has been argued that OCB is associated with other concepts that refer to similar forms of employee behaviours that go beyond task performance, such as: contextual performance (Borman & Motowidlo, 1993), prosocial organizational behaviour (POB) (Brief & Motowidlo, 1986) and extra-role behaviours (Van Dyne, Cummings, & McLean Parks, 1995). Contextual performance is defined broadly as those non task activities that contribute to the enhancement of the work context. However, it is not necessarily the case that the tasks in question are discretionary or unrewarded. POB refers to behaviour that aims to improve the welfare of the other organizational members at whom it is directed, whilst extra-role behaviour characterizes behaviours that benefit the organization, are discretionary and go beyond extant role expectations. Indeed, Van Dyne, et al. (1995) have contended that POB is a concept broader than OCB, but both constitute extra-role behaviours<sup>15</sup>. Whilst all of these overlap, OCB has been more rigorously researched than the other concepts by scholars exploring these issues and differences in relation to organizational outcomes and thus, it is deemed appropriate to adopt OCB as the behavioural construct in this investigation.

#### **5.2.2.1 OCB as a Multi-Dimensional Construct**

OCB has been identified as being a multi-dimensional construct by a number of researchers (Bettencourt, et al., 2001; Van Dyne, Graham, & Dienesch, 1994; Organ, 1988; Podsakoff, et al., 2000; Williams & Anderson, 1991). More specifically, Organ (1988) listed five dimensions of OCB: (a) altruism: the helping of an individual co-worker on a task; (b) courtesy: alerting others in the organization about changes that may affect

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<sup>15</sup> See Van Dyne et al. (1995) for further details of the commonalities and differences between these frameworks in relation to OCB.

their work; (c) conscientiousness: carrying out one's duties beyond the minimum requirements; (d) sportsmanship: refraining from complaining about trivial matters; and (e) civic virtue: participating in the governance of the organization. Building on this, Williams and Anderson (1991) developed a two-dimensional model comprising OCB-O and OCB-I, which specified the recipients of the beneficial behaviours, with the former, and hence its acronym, referring to behaviours that directly benefit the organization in general (e.g. following informal rules to maintain order), whereas the latter signifies the direct benefits to individuals and hence its acronym, and as a consequence indirectly contributes to the organization (e.g. helping others who have been absent or helping to orient a new employee).

Turning to more recent conceptualizations, Van Dyne et al. (1994) have defined OCB in terms of political philosophy, drawing on the notion of civic citizenship to outline three types of citizenship behaviours: loyalty, participation and conscientiousness. Subsequently, Bettencourt, et al., (2001), based on this civic citizenship notion, defined a model of service-oriented OCB for employees specifically working in service-oriented organizations with extensive customer contact as part of their roles comprising: service loyalty, service participation, and conscientious service delivery. Service loyalty refers to the promotion of the organization with regard to products, services, and goodwill. Service participation describes shared communication among team members which involves employees keeping themselves and other team members well-informed regarding the company's products and services, as well as being in tune with the changing needs of the customers. The last dimension, conscientious service delivery, covers staff behaviours that register their care and concern about the delivery of service quality to customers.

In sum, a recent meta-analytical review of studies in this field reported that many different forms of citizenship behaviours have been examined and some of the behaviours that have been studied overlap, particularly in terms of the researchers' conceptualisation of OCB (Podsakoff et al., 2000).

Nevertheless, it emerges that helping behaviour was the key common citizenship type behaviour being researched in these studies and this, in essence, took the form of voluntarily helping others with or preventing the occurrence of, work-related problems.

#### **5.2.2.2 OCB and Its Effects on Organizational Performance**

OCB scholars have argued that OCB can facilitate business performance improvement in many ways (Organ, 1988; Organ, et al., 2005: 199-212; Podsakoff & MacKenzie, 1997). First, it is contended that because OCB is not constrained by situational requirements (e.g. the work process, technology levels) nor individual ability, all employees can adopt OCB and hence contribute to improving the organization's performance. Second, such behaviours help people work together and coordinate activities among team members and across groups, for example, through helping colleagues with work-related problems and by actively participating in work unit meetings. Over time, it is argued that these shared practices become a strong attribute of employees within the unit and that these cooperation and collaboration activities result in enhanced levels of productivity for the unit (Koys, 2001; Ostroff, 1993; Podsakoff, et al., 2009; Ryan, et al., 1996).

Third, employees who voluntarily help each other do not have to ask their supervisors for assistance, thus leaving the latter free to concentrate on more important and more productive tasks (e.g. strategic planning and business processes improvement). Lastly, OCB can enhance the organization's ability to attract and retain the best employees, because it is reasonable to claim that a firm with a high intensity of OCB has high levels of group cohesiveness, strong network ties and positive morale and hence, can be a more attractive workplace.

Empirical studies have shown consistently the positive effects of strong unit level OCB on organizational effectiveness, although the observed employee behaviours were not identical in all the cases (Podsakoff et al., 2000, 2009,

Whitman et al., 2010). For example, Koys' (2001) longitudinal study of 28 chain restaurants demonstrated that the restaurant staffs' overall OCB was associated with unit level profitability. Moreover, Nishii, et al.'s (2008) study of a supermarket chain found that only the helping behaviours in an operational unit mediated employee attitudes and customer satisfaction. Podsakoff, Ahearne and MacKenzie (1997) investigated OCB and its linkages with business performance among 40 machine crews at a paper mill and concluded that where they observed the employees shared values of sportsmanship and helping others, this was beneficial to the firm in terms of the quantity and quality of productivity outcomes.

Furthermore, other studies have been carried out outside of the US and in different business sectors. For instance, the model of service oriented OCB has been found to explain the levels of employee turnover and unit productivity (sales per employee) in a study of hotels in China (Sun, et al., 2007). In addition, positive OCB-business performance associations were reported in a study of Taiwanese bank branches, in that researchers revealed that strong levels of employee conscientiousness were positively related to bank branch profits and customer perceptions of service quality (Yen & Niehoff, 2004). Furthermore, Rego and Cunha's (2008) study of the relation between overall OCB and organizational effectiveness in insurance companies in Portugal, reported that in those branches where the employees displayed more OCB there tended to be higher productivity (income per employee) and lower administrative and personnel costs.

The above studies substantiate Organ's (1988) contention that OCB enhances organizational effectiveness, in that they underline the importance of citizenship type behaviours as a plausible explanation for the effective functioning of the work unit. With respect to this, Katz (1964: 132) pointed out that 'an organization which depends solely upon its blueprints of prescribed behaviour is a very fragile system', arguing that without cooperative efforts and spontaneous behaviours, such as those categorised under OCB, productivity would slowly deteriorate (Kopelman, et al., 1990: 301). Ferris, et al. (1998) went further when they suggested that these



collective citizenship behaviours, which lie on the margins, can differentiate the degree of effectiveness of organizations.

#### **5.2.2.3 OCB and Affective Organizational Commitment (AOC)**

The above literature has established that the employees' willingness to cooperate and collaborate can often contribute to organizational performance. The reality is that they can exert their discretion over whether to express or withhold this type of behaviour, because OCB is neither explicitly required, nor contractually rewarded, and so they cannot be penalised for failing to demonstrate it adequately (Organ 1988). In this regard, OCB can be considered to fit with the notion of contextual performance (Borman and Motowidlo, 1993) in that the behaviour is largely influenced by attitudinal factors and because of their discretionary nature, non-contractual rewards and their being non-punishable if omitted employees can securely withhold it, if they are dissatisfied. Turnley and Feldman (1999, 2000) supported the crucial nature of this aspect by reporting that citizenship type behaviour is the first dimension of working practices to be withdrawn by employees in response to any treatment by the organization that they deem to be unpleasant. In contrast, employees will have to continue their task performance, even if they have been treated badly by the organization, because they can be disciplined or have their job terminated for unsatisfactory in-role performance.

Empirical studies in this field have revealed that employee commitment and job satisfaction appear to be strong influencers of OCB. More specifically, meta-analytical studies have elicited some common results, namely that job satisfaction and organizational commitment are equally related to the OCB measures of helping and conscientiousness (Organ & Ryan, 1995; Podsakoff, et al., 2000). Moreover, although these relationships are fairly moderate, they are relatively stronger than those related to sportsmanship, civic virtue and courtesy. However, Schappe's (1998) study of the relative

effects of the causal antecedents of OCB indicated that AOC has a stronger impact than job satisfaction when these are considered concurrently.

The stronger relation between AOC and OCB could be explained by Ajzen and Fishbein's (1977) compatibility principle. In this regard, these authors suggested that attitude and behaviour connections are strongest when these two constructs are compatible in terms of action, target, context and time. Based on this framework, Hulin (1991) went on to explain that the behavioural outcomes associated with employees' job satisfaction are more likely to generate benefits targeted on the job position or work role, whereas those with their affective attitudes towards the organization such as AOC tend to result in benefits targeted on the wider issues in the organization. As such, the AOC and OCB constructs are compatible in that they are both targeted on the organization entity and hence this supports Schappe's (1998) findings that AOC has a stronger link with OCB than does job satisfaction.

Subsequently, Meyer and Herscovitch (2001) also adopted this compatibility principle and proposed their general model of commitment to explain the AOC-OCB relation. More specifically, they argued that employees with affective bonding with the organization would result in them wanting to pursue a course of action that promotes the organization's interests and incorporate behaviours in their work that are over and above those included in their described role, thereby contributing to the enhancement of the organization's success. This argument was consistent with the previous research findings that affectively committed employees view a wide range of behaviours as constituting part of their job, although these are usually considered as supplementary to their prescribed roles (Morrison, 1994). In sum, the evidence from a selection of studies and meta-analytical reviews indicates that employees with positive affective commitment attitudes are likely to engage in citizenship type behaviour (Mathieu & Zajac, 1990; Meyer, et al., 2002).

### **5.3 Hypotheses Development**

Recall that one of the HR goals is to enhance employee discretion to support the organizational objectives and accomplishment. In chapter 4, the ways in which employee commitment can be affected by the quality of HR implementation were discussed, whereas in this chapter, the linkages at the unit level between employee commitment, organizational citizenship behaviours and business sales performance are investigated, by drawing on data collected from Thai retail bank branches.

Although organizational commitment is largely a theoretical construct at the individual level, it has been contended that individual responses regarding commitment attitudes can become shared by employees in work units in many ways (Kozlowski & Klein, 2000: 55-61; Morgeson & Hofmann, 1999; Ostroff, 1992). First, Kozlowski and Klein (2000) noted that individuals within a bounded context are presented with a relatively homogenous set of situational factors and events, which can lead to collective interpretations and commonalities in the ways in which they respond to such factors. In the case of the retail banking environment, branch networks are the isolated business unit within which the employment practices and other corporate policies are enacted locally by the branch manager. Therefore, this creates the situation where employees in each specific branch are likely to share a common work environment, such as: work rules, strategies, task demands, and leadership. The experience of which is likely to lead to a significant set of shared attitudes amongst this group of staff that are different to those held by staff members in other branches (Nishii, et al., 2008).

Second, Morgeson and Hofmann (1999: 252) explained that the collective attitudes observed amongst staff emerge through a process of ‘double interaction’. That is, team members pass on their ideas, emotions and attitudes to other members with whom they are interacting and the spill over effect can become larger in a wider circle of contacts, because the increased

level of interaction leads to individuals more rapidly and intensively adopting collective attitudes, rather than retaining their own.

Last, the attraction-selection-attrition (ASA) model (Schneider, Goldstein, & Smith, 1995) has also been proposed as a way to explore the notion of shared attitudes at the unit level. Under this lens, it is argued that over time the three interrelated dynamic processes that ASA stands for lead to the coalescence of a group of like-minded people in an organization (Schneider, 1987; Schneider, et al., 1995). This consequently re-defines the nature of the organization in terms of structure, processes and culture and ultimately this nurtures a similarity in attitudes within the staff body<sup>16</sup>. In sum, the notion of shared affective commitment attitudes has been supported by the homogeneous situational factors, the interaction process and the ASA model perspectives.

In light of the above and the literature discussed in subsection 5.2.2.3, it is posited that unit level affective commitment attitudes are positively associated with unit level OCB. That is, when compared with employees with low levels of commitment, highly committed employees identify more with and are more emotionally attached to organizational values and objectives. Consequently, they have a greater motivation or desire to go the extra mile and to undertake a range of tasks beyond role descriptions that make additional contributions to organizational success, than would have been the case otherwise (Meyer & Allen, 1997; Meyer & Herscovitch, 2001; Morrison, 1994). This has consistently been confirmed in several meta-analyses (Mathieu & Zajac, 1990; Meyer, et al., 2002; Organ & Ryan, 1995; Podsakoff, et al., 2000). Therefore, the first proposition is put forward:

*Hypothesis 11: The branch's affective commitment attitudes  
have positive effects on the branch's OCB.*

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<sup>16</sup> Details of ASA model and its implications in relation to shared attitudes can be found in Schneider, et al., 1995.

Next, the discretionary behaviours that are construed as OCB are considered to help improve the social and psychological environment in which task performance takes place (Organ 1988). Thus, it follows that a branch with highly visible citizenship type behaviours will have strong collaboration and cooperative norms (Ehrhart & Naumann, 2004; Blau, 1964; Gouldner 1960), in which employees help each other with work-related problems, thereby freeing managers to spend more time on other productive tasks (Organ, 1988; Organ, et al., 2005: 199-212; Podsakoff & MacKenzie, 1997). Meta-analyses have also revealed consistent reports of this positive relationship between OCB and unit level performance (Podsakoff et al., 2000; 2009; Whitman 2010). Accordingly, it is posited that:

*Hypothesis 12: The branch's OCB has a positive effect on branch sales performance.*

Whilst the links between employee commitment and OCB and between OCB and business performance have been extensively examined in the extant literature, a recent meta-analysis found that only ten papers have, simultaneously, tested the attitude-behaviour sequential effects in multi-level performance linkages (Whitman, et al., 2010). Furthermore, most of researchers in these few studies used job satisfaction as the indicator of attitudinal effect on OCB through to business outcomes in their investigation and in this regard, the meta-analysis report revealed a weak mediating effect of OCB on the association of job satisfaction with organizational performance (ibid.). It is possible that employee attitudes towards their *job* may be less compatible with the behavioural target on the *organization* (Ajzen & Fishbein, 1977). As discussed in 5.2.2.3 the attitude-behaviour link between organizational commitment and OCB is more compatible because organizational commitment, which is the affective bonding with the organization, and OCB share a common target on organization's interest (Ajzen & Fishbein, 1977; Meyer & Herscovitch, 2001). Moreover, a number of scholars have posited that differential organizational performance can also be attributed to collective citizenship

behaviours (Katz 1964; Katz & Kahn, 1978; Kopelman, et al., 1990; Ostroff 1993; Ferris, et al., 1998). It is therefore contended that the causal nature of the AOC-OCB-branch performance relation can be established in that the linkages between the unit level AOC and business sales performance can be observed through the unit level OCB.

*Hypothesis 13: The branch's OCB mediates the relationship between its affective commitment and its sales performance.*

## **5.4 Methodology**

### **5.4.1 Sample**

Taking the same dataset analysed in chapter 4, for this current chapter this was examined at the bank branch level. The 1,286 usable questionnaires being used in the individual level analysis were returned from 225 branches accounted for 71% of the response rate at the unit level. In order to minimize the biases that could have arisen from difference in branch size, when the scores were aggregated to the group level, the analysis was conducted using only data from those branches that had at least five respondents (Bliese, 1998). This resulted in data from 149 branches being included in the analysis, with the average group size or number of employee responses per branch being 6.87 ( $SD = 1.69$ ).

### **5.4.2 Measures**

#### *Unit Level Affective Organizational Commitment*

In this study the unit-level commitment attitudes were conceptualized as the unit members' shared internal state expressed by their affective bonding

with organizational values. Methodologically, the reference shift model (Chan, 1998) was adopted for the operationalization of the group level commitment construct, in which the lower level measure of affective organizational commitment at the individual level was utilized to form a meaningful higher level construct, i.e. shared affective commitment at the branch level. That is, under this model the within-group agreement taken from individual reports regarding commitment are considered the shared commitment attitudes at the branch level.

To obtain unit commitment scores at the branch level, the individual employee scores for each entity were aggregated and in order to justify this, intraclass correlation coefficients, i.e. ICC-(1) and ICC-(2) were calculated (James, 1982). According to James, the ICC-(1) can be interpreted as an index of interrater reliability or the extent to which individual raters are substitutable and ICC-(2) can be considered as an estimate of the reliability of the group means. The ICC-(1) was found to be 0.17<sup>17</sup>, which is within the acceptable range (0.05-0.20; Bliese, 2000), thus suggesting an individual's response provides a reliable estimate of the aggregate variable. In addition, the ICC-(2) value was obtained at 0.59<sup>18</sup>, which is close to the recommended 0.60 cut-off (Glick, 1985). The *F*-tests for employee commitment across branches were significant ( $F_{(148, 871)} = 2.465$ ;  $p < 0.001$ ), thus providing support for there being differential reports of commitment levels across branches. Taken together, these analyses suggest that the measures of employee commitment demonstrate sufficient between-group differences and within-group agreement to justify empirically examining this construct at the unit level.

#### *Unit level Organizational Citizenship Behaviour*

Organizational citizenship behaviour was measured with the group as the referent, wherein respondents were asked to rate the extent to which their

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<sup>17</sup> ICC-(1) calculation for unit level AOC can be found in appendix 5-1.

<sup>18</sup> ICC-(2) calculation for unit level AOC can be found in appendix 5-1.

co-workers demonstrated citizenship behaviours and thus OCB could be treated as the unit level construct in this context. The internal consistencies (Cronbach's alpha) obtained were good for all three dimensions of service-oriented OCB ( $\alpha_{\text{OCB-service loyalty}} = 0.86$ ,  $\alpha_{\text{OCB-service delivery}} = 0.88$ , and  $\alpha_{\text{OCB-service participation}} = 0.90$ ). To provide support for the aggregation of OCB to the unit level, the ICC-(1) and ICC-(2) were also calculated<sup>19</sup>. ICC-(1) values for service loyalty, conscientious service delivery and service participation were obtained at 0.11, 0.09 and 0.09, respectively and ICC-(2) values for these same set of variables were 0.47, 0.73 and 0.68 respectively. Moreover, the *F*-tests associated with all of the three OCB dimensions were statistically significant,  $p < 0.001$  ( $F_{(\text{OCB-service loyalty: } 148, 875)} = 1.891$ ;  $F_{(\text{OCB-service delivery: } 148, 875)} = 1.727$ ;  $F_{(\text{OCB-service participation: } 148, 874)} = 1.680$ ). Taken together, all the ICC values fell within the acceptable range (Bliese, 2000; Glick, 1985), except for the ICC-(2) value regarding the OCB-service loyalty, which was reported lower than the cut-off point. The *F*-test reported for the three dimensions of the OCB construct is, however, statistically significant and hence, their aggregation is justified (Bliese, 2000). Previous research also followed these guidelines for the justification process (e.g. Nishii, et al., 2008).

### *Branch Sales Performance*

The 12-month lagged-time report of the branches' sales performance was provided by the bank's headquarters. More specifically, the performance was based on the accumulated reporting of sales target achievement (i.e. actual branch sales performance as a percentage of targets) for the 12 months after the questionnaire was launched. Branch performance included the report of sales target achievement for the following products and services: personal loans, SME loans, mortgages, deposits and fee-based income (e.g. currency exchanges, bills payments and money transfers).

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<sup>19</sup> ICC value calculations for the unit level OCB can be found in appendix 5-1.



## *Controls*

The controls used for employee commitment at the individual level of analysis in chapter 4 were carried forward to analyse the shared commitment attitudes at the unit level because diverse demographic characteristics across branches could have influenced the contextual environment, team functioning, interaction processes and performance at the branch level (Choi, 2009; Schippers, Hartog, Koopman, & Wienk, 2003; Watson, Kumar, & Michaelsen, 1993). As in some previous studies (Choi, 2009; Pfeffer & O'Reilly, 1987), branch diversity coefficients for age, gender, job level and bank tenure were computed using an entropy-based diversity index (Teachman, 1980). The diversity index ranges from 0 to 1, where the higher score indicates a greater distribution of this characteristic within the team (i.e. more diversity). Subsequently, the mean of the four types of demographic diversity was calculated and was found to be 0.26 ( $SD = .07$ ), indicating a low dispersion of demographic characteristics across the sample branches.

In addition, because employees with favourable attitudes tend to participate in tasks beyond their job roles (Morrison, 1994) they are likely to support an organizational activity, such as filling in an organizational survey. As a result, the AOC and OCB responses could be positively biased as branches with high return rates would probably also report high ratings of these particular aspects. Therefore, controlling for this should neutralize the situations across branches. In this regard, the proportion of questionnaires returned by each branch was computed ( $M = 71\%$ ,  $SD = 13\%$ ) and subsequently, four return rate categories were developed (lower than 60% = 1, 60% - 69% = 2, 70% - 79% = 3, more than 80% = 4).

Last, branch size based on the number of employees (3-5 staff = small branch size; 6-10 staff = medium branch size; and more than 10 staff = large branch size) was controlled for the unit-level OCB and branch performance. Regarding OCB, in smaller branches team members are having more opportunities to demonstrate and/or observe their colleagues' citizenship

type behaviours in the service encounter than in the larger ones. As for the case of branch sales performance, the different branch sizes can influence the level of business competition in the area and hence, the level of performance achievement.

## **5.5 Data Analysis and Results**

The study measures were, firstly, validated by examining their dimensionality using confirmatory factor analysis (SPSS 16). Next a latent variable structural equation model technique (AMOS 16), in which the indicators of the continuous latent variables were included in the model was used to test the hypotheses. As with the analysis at the individual level, the chi-square difference test of nested-models comparison was conducted, so as to identify the best fit model. The comparative fit index (CFI) (Bentler, 1990) and incremental fit index (IFI) (Bollen, 1989) were used as the criteria to justify the fit of the specified model.

### *Confirmatory Factor Analysis*

Confirmatory factor analysis of the unit level AOC, OCB and branch sales performance was conducted on the dataset, to examine the relation between each indicator and its assumed underlying construct, using a principle component factor analysis with varimax rotation. The results gave a one-factor solution for both AOC and OCB with strong loadings from all the items on their factors (see table 5-1). Moreover, a single factor for bank branch performance was also obtained, which explained 40% of the variance, with fee-based income and personal loans sharing the highest loading of 0.73 and deposits reporting the lowest at 0.42. In sum, this single component obtained for each construct provides support for the validity of the measures employed in the analysis.

**Table 5-1**  
**Confirmatory Factor Analysis of the Study Measures—Item Loadings**  
**The Unit Level Analysis**

Statement	Loading
<b>Affective Organizational Commitment</b>	
1 I would be very happy to spend the rest of my career with this organization.	0.86
2 I do not feel a strong sense of 'belonging' to my organization (R).	0.74
3 This organization has a great deal of personal meaning for me.	0.84
4 I do not feel like 'part of the family' at my organization. (R).	0.79
5 I really feel as if this organization's problems are my own.	0.77
6 I do not feel 'emotionally attached' to this organization (R).	0.81
<b>Organization citizenship behaviour - service loyalty</b>	
1 My colleagues tell outsiders this is a good place to work.	0.82
2 My colleagues say good things about organization to others.	0.85
3 My colleagues generate favourable goodwill for the company.	0.88
4 My colleagues encourage friends and family to use firm's products and services.	0.83
5 My colleagues actively promote the firm's products and services.	0.80
<b>Organization citizenship behaviour - conscientious service delivery</b>	
1 My colleagues follow customer service guidelines with extreme care.	0.89
2 My colleagues conscientiously follow guidelines for customer promotions.	0.86
3 My colleagues follow up in a timely manner to customer requests and problems.	0.86
4 My colleagues perform duties with unusually few mistakes.	0.81
5 My colleagues always have a positive attitude at work.	0.82
6 Regardless of circumstances, my colleagues are exceptionally courteous and respectful to customers.	0.72
<b>Organization citizenship behaviour - service participation</b>	
1 My colleagues encourage co-workers to contribute ideas and suggestions for service improvement.	0.88
2 My colleagues contribute many ideas for customer promotions and communications.	0.89
3 My colleagues make constructive suggestions for service improvement.	0.95
4 My colleagues frequently present to others creative solutions to customer problems.	0.92
5 My colleagues take home brochures to read up on products and services.	0.74
<b>Branch performance</b>	
1 Personal loan	0.73
2 SME loan	0.69
3 Mortgage loan	0.53
4 Fee-based income	0.73
5 Deposit	0.42

Note: N = 149. All loadings are standardized. (R) = item reverse scored.  
Analysis is based on the aggregated data to branch level.

### *Descriptive Statistics*

**Table 5-2**  
**Descriptive Statistics and Correlations**  
**The Unit Level Analysis**

Measure	M	SD	1	2	3	4	5
1 Branch AOC	5.05	.54	(.89)				
2 Branch OCB-service loyalty	3.72	.36	.66 **	(.86)			
3 Branch OCB-service delivery	3.83	.32	.64 **	.78 **	(.88)		
4 Branch OCB-service participation	3.73	.34	.59 **	.72 **	.85 **	(.90)	
5 Branch performance	71.07	10.63	.21 *	.23 **	.22 **	.19 *	(n/a)

Note: N = 149. Scale score correlations are given below the diagonal. Internal reliabilities (coefficient alphas) are given in parentheses along the diagonal. AOC = affective organizational commitment; OCB = organizational citizenship behaviour.

\*\*  $p < .01$

\*  $p < .05$

In table 5-2, the means, standard deviations and correlations are presented. All of the constructs were significantly correlated. AOC and the three OCB dimensions were virtually equivalent in their correlates with branch sales performance ( $r = 0.19-0.23$ ). However, the correlations among the three OCB dimensions were relatively high ( $r = 0.72$  and  $0.85$ ). The fact that the data gave these strong correlations was not surprising as this is consistent with the outcomes of the meta-analysis carried out by LePine, Erez and Johnson (2002). With regards to this, they argued that OCB should be considered as a latent construct, rather than one single overriding OCB factor (Sun, et al., 2007) or as distinct OCB dimensions (Bettencourt, et al., 2001; Lin, et al., 2008). Which of these three scenarios is the best fit OCB model for this dataset was tested for and the results are reported in the next section.

#### *Second-order Factor OCB*

In order to investigate the best fit OCB model to the data confirmatory factor analysis with maximum likelihood estimation was used to compare the three possible alternatives for modelling the OCB-item-covariance matrices (see table 5-3). First, a one-factor model was constructed in which all sixteen items were loaded to form a single combined factor (Model 1). Second, a three-factor model was specified, in which the items designed to measure service loyalty, service delivery and service participation were loaded onto these three correlated factors (Model 2). Finally, a second-order factor model was constructed, which was specified identically to the three-factor model, except that the three factors were loaded, in turn, on the higher order factor (Model 3). Regarding the lattermost, because there were only three first-order factors (i.e. service loyalty, service delivery and service participation), this second-order model could not be statistically distinguished from that of Model 2. That is, the second-order model simply replaced the three factor correlations with three second-order factor loadings. Hence, the two models showed identical fit with their chi-square and degree of freedom being reported exactly the same.

**Table 5-3**  
**A Comparison of Organizational Citizenship Behaviour Measurement Models**

Model	Factors	$\chi^2$	df	$\Delta\chi^2$	RMSEA	RMSEA LO 90 - HI 90	CFI	IFI
<b>Model 1</b> One factor	All sixteen indicators were combined into one factor.	439.22	104	--	.15	.13 - .16	.84	.84
<b>Model 2</b> Three factors	Items were loaded separately into the constructs being defined a priori. Five items were loaded to service loyalty, six items to service delivery, and the last five items to service participation.	303.74	101	135.48	.12	.10 - .13	.90	.90
<b>Model 3</b> Second-order factor	The three constructs identified in Model 2 were treated as the first-order factors loaded into one second-order factor.	303.74	101	135.48	.12	.10 - .13	.90	.90

Note: N = 149. RMSEA = root-mean-square error of approximation; CFI = comparative fit index; IFI = incremental fit index.

However, although the three-factor model and the second-order factor model are statistically invariant, this researcher chose to opt for the latter, because it is not the main objective of this study to explain business performance from different dimensions of OCB, but rather to demonstrate the linkages of attitude, behaviour and business performance. Therefore, the fit statistics between Model 1 and Model 3 were compared. The results suggested that the second-order factor model was a better fit model to data (RMSEA CI 90% .10; CFI .90; IFI .90) and thus, the second-order factor model was used for measuring OCB.

### *Test of the Hypotheses in the Study*

In this subsection, the results regarding the structural relationships of the studied variables are considered in order to identify the extent to which they support the hypotheses developed earlier in section 5.3. The following structural model was estimated to test H11-H13 (figure 5-1). The results related to the mediating effect were presented first to inform the appropriate structural model for testing the hypotheses associated with the path relationships. It is noted here that the composition of branch diversity was added into the model as a control for unit level commitment, whilst other controls were applied using the data centred approach.

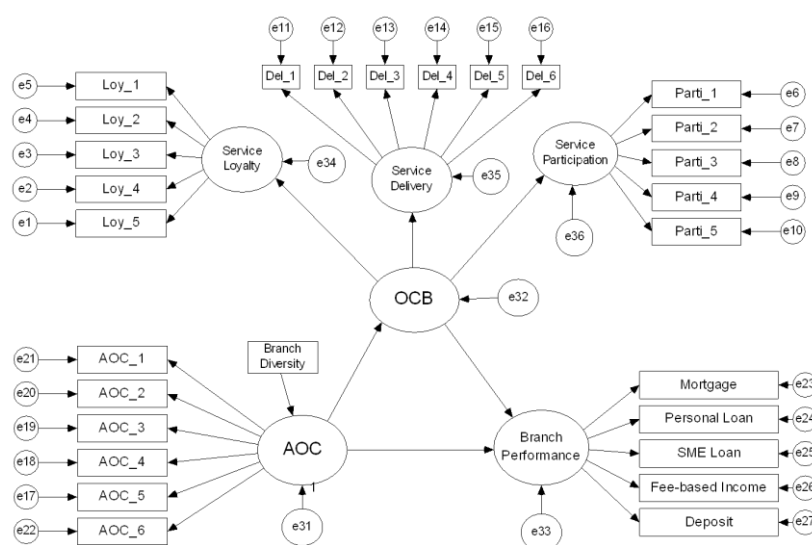


Figure 5-1: Model Specification for the Unit Level Analysis

The zero-order correlations between the branch's AOC, branch's OCB and branch performance set out in table 5-2 provided a preliminary support for H13 predicting a relationship between AOC and branch performance being established through OCB. To further test this mediating effect of OCB on AOC and branch performance relation, a nested model comparison was used (see table 5-4).

**Table 5-4**  
**A Comparison of Structural Equation Models**  
**Testing OCB Mediating AOC and Branch Performance Relationship**

Model	Factors	$\chi^2$	df	$\Delta\chi^2$	RMSEA	CFI	IFI
<b>Model 4</b> <i>baseline</i>	Partial mediation AOC --> OCB --> branch performance AOC --> branch performance	593.60	344	--	0.07	0.91	0.91
<b>Model 5</b>	Complete mediation AOC --> OCB --> branch performance AOC --> branch performance being constrained to zero	593.78	345	0.18	0.07	0.91	0.91

Note: N = 149.  $\Delta\chi^2$  = difference in  $\chi^2$  values between models; RMSEA = root-mean-square error of approximation; CFI = comparative fit index; IFI = incremental fit index; AOC = affective organizational commitment; OCB = organizational citizenship behaviour.

\*\*  $p < .01$

\*  $p < .05$

As shown in table 5-4, the difference between the chi-squares was not significant ( $\Delta\chi^2(\Delta df = 1) = 0.18$ ) for a partial mediation model (Model 4), in which AOC has both a direct link to business performance and an indirect relationship through OCB when compared with a complete mediation model

(Model 5), in which AOC is linked with business sales performance relationship only through OCB. Under the principle of model parsimony, the results suggest that the complete mediation model best fit the data and hence, it is concluded that, at the unit level, OCB fully mediates the relationship between AOC and business performance, thereby supporting H13.

Next, the path relationships were tested based on this complete mediation

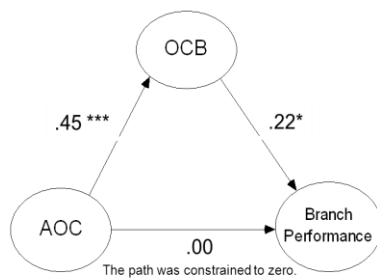


Figure 5-2 Structural Path Estimates at the Unit Level Analysis (unstandardized path estimates)  
Note: Measurement models and covariance among exogenous variables are not shown in the figure.

\*\*\*  $p < .001$   
\*\*  $p < .01$   
\*  $p < .05$

model specification (figure 5-2). The structural relationships obtained between commitment attitudes, OCB and business performance support H11 and H12 in that unit level AOC has a positive association with unit level OCB ( $\beta = .45$ ,  $p < 0.001$ ) and OCB with branch performance ( $\beta = .22$ ,  $p < 0.05$ )<sup>20</sup>.

## 5.6 Discussion

In this chapter the linkages between HR outcomes arising from employees' assessment of the organizational offer in the employment relationship and the business sales performance have been examined by applying a multilevel analysis to data. Overall, the results support the notion that HR outcomes in the form of affective organizational commitment and citizenship behaviours contribute to business performance. As expected, branch's AOC was significantly associated with branch's OCB, which in turn, had lagged effects on its sales performance. In addition, a complete mediation effect of OCB on AOC and branch sales performance was obtained, suggesting a sequential effect of attitude and behaviour relationship to explain business results. Furthermore, these results support

<sup>20</sup> Path estimates (standardized and unstandardized) of the full model specification as presented in figure 5-1 can be found in appendix 5-2.

the idea that there are likely to be cross-level and emergent processes, in which individual commitment attitudes emerge in a meaningful way at a higher level as being linked with group behavioural performance and subsequently the unit level outcomes.

### *Limitations and Directions for Future Research*

There are, however, certain limitations that may need to be taken into account when interpreting these findings. In this regard, as the data were drawn from one organization in Thailand, this limits the extent of the generalizability of the findings, with respect to other organizations, industries and cultural contexts. Whilst a single entity study might restrict variance on the measures being examined, on balance, this allowed the researcher to control, systematically, for the contextual environment which could have influenced the variables of interest (Wright, et al., 2005). Therefore, a more precise observation was achieved on the relationships regarding the constructs under investigation. In addition, the fact that all the three measures in this study came from different sources means that one cannot discount the findings as resulting from common method bias. These are: individuals' ratings were used for the commitment attitudes; co-worker ratings were used for gauging team OCB; and the bank provided its own data on branch sales performance. Furthermore, the service-oriented OCB might be considered consistent with the nature of the banking service organization business and hence, a positive effect is more likely to be observed than when this measure is used in other organizational settings (Borman & Motowidlo, 1993: 90). Although the results from this study are consistent with Sun, et al.'s (2007) work which also reported on the service-oriented OCB and business sales performance relationship in the context of the hospitality business in China, it is recommended that future studies are carried out to see whether these findings can be replicated in other business sectors. Additionally, whilst the outcomes of this research reported a cross-lagged business impact of OCB, which suggests that OCB causes performance to increase, alternatively, reverse causation can also be the case



(cf. Koys, 2001). Koys' longitudinal study found that OCB exhibited causal relations with the measures of restaurant profitability in year 1, but neither of the unit measures observed in year 1 predicted OCB for year 2. Thus, this causal relationship should be further explored so as to provide more understanding of the link between OCB and organizational effectiveness.

### *Theoretical and Practical Implications*

Notwithstanding these limitations, the findings of the current study have suggested that OCB appears to be positively associated with branch sales achievement, which is an important indicator of the unit success. This reinforces prior knowledge regarding the links of OCB with several measures of business performance (Podsakoff, et al., 2000; Podsakoff, et al., 2009) and provides support for Organ's (1988) assertion that OCB, when aggregated in terms of people and over time, can improve organizational effectiveness. This is because as more team members come to share the common norms associated with citizenship type behaviours, the organization becomes more successful. That is, in the context of this study, bank branches are better able to earn the customers' trust in the credit worthiness of the products and services, when they experience a positive impression of customer care given by customer contact employees who strenuously exhibit: high loyalty to the bank's products and its image; interact with the customers with care; and enthusiastically participate in service quality improvement activities. These differential service experiences for the customers can possibly promote higher degrees of customer satisfaction and hence, their loyalty in remaining as clients of the bank, which in turn, contributes to the marginal business gain.

Further, the findings that employee commitment are linked with unit level performance through OCB support the notion that it is the employee behaviours that have a direct impact on organizational results and the strength of this is driven by employee affective attitudes (Ostroff & Bowen,

2000; Purcell & Kinnie, 2007). The results have also uncovered the previously inexplicable relation discussed in the extant literature, regarding the mechanisms through which employee attitudes can influence business performance (e.g. Ryan, et al., 1996; Ostroff, 1992, 1993; Ostroff & Bowen, 2000; Whitman, et al., 2010). In particular, Ostroff (1993) found that unit level attitudes have stronger effects on unit level performance than the counterpart relationship driven by the attitudes held at the individual level. She further argued that a plausible explanation for this was that shared attitudes could influence the collaboration and cooperative efforts in the unit, which manifest themselves by having a greater impact on organizational effectiveness, which is consistent with the results found in this study. However, a recent meta-analytical review of unit level studies by Whitman et al. (2010) showed a less favourable finding that OCB has a weak mediating effect in the relationship between unit level attitudes and performance. Because the majority of the studies included in this meta-analysis conceptualized attitudes towards job (job satisfaction) as the attitudinal outcomes impacting on the organizational focus performance (OCB and business performance), it is possible that this could have resulted in an incompatibility of attitude-behaviour targets and hence, a relatively weak mediating impact of OCB in the link of job attitudes with the organizational performance (Ajzen & Fishbein, 1977; Hulin, 1991; Judge, Bono, Thoresen, & Patton, 2001; Meyer & Herscovitch, 2001).

Other studies have addressed the notion of the compatibility principle by combining job satisfaction and commitment attitudes into one explanatory variable, on the grounds that this approach would cover a broader target on which the favourable attitudes could have an influence (cf. Harrison, Newman, & Roth, 2006; Nishii, et al., 2008). Consistent with the results in this study, Nishii, et al. (2008) reported the positive relationships of these combined attitudes, the OCB-helping domain and customer satisfaction. However, the strength of the relationship between the combined attitudes and OCB reported in their study ( $\beta = .23, p \leq 0.05$ ) is one third the

magnitude found in this study ( $\beta = .68, p < 0.001$ )<sup>21</sup>. This is possibly resulted from the mismatch brought about by the combining job and organizational attitudes to predict OCB. Moreover, this combined approach may have negative repercussions on an effective application of HR practices to drive relevant performance, because the job and organizational related attitudes could be shaped by different practices. It is therefore suggested that research aiming to test the attitudinal and behavioural outcomes relationship in the link with organizational performance should acknowledge the relevance of the compatibility of the targets (Ajzan & Fishbein, 1977), because this would make it easier to identify the relationships and to elicit ways of strengthening these ties.

From a practical perspective, the results from this study may prove helpful for HR and business managers who could use them to justify employee throughput, because they show that employee discretionary performance can lead to business gains. In this regard, this researcher has empirically demonstrated that customer contact employees are valuable resources. Their cooperative and spontaneous behaviours in caring for customers are accounted for 32%<sup>22</sup> of the unit sales performance and their affective commitment indirectly contributed to 22%<sup>23</sup> of the variance after controlling for different group composition and previous year performance. This association of employee discretion with business performance poses challenges to organizations to provide value proposition for which the employee would be grateful and feel sufficiently indebted in the relationship so as to wish to reciprocate to the organization in a meaningful way. Moreover, managers should consider making improvements in the work environment that can reinforce citizenship type behaviours, such as leadership behaviours (e.g. transformational leadership), group cohesiveness and fairness perceptions (Organ & Ryan, 1995; Podsakoff et al., 2000).

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<sup>21</sup> The coefficients in comparison are based on the standardized estimates.

<sup>22</sup> This figure is based on the standardized estimates (see appendix 5-2).

<sup>23</sup> This figure is calculated by multiplying the standardized coefficients of AOC-OCB (0.68) and OCB-branch performance (0.32).

## **5.7 Conclusion**

In conclusion, in this chapter the multilevel linkages of employee outcomes and business performance have been illustrated. The above findings have exemplified the link between HR/employee outcomes and organizational performance and provided further understanding of how this cross-level effect operates (Ostroff & Bowen, 2000; Purcell & Kinnie, 2007). The structural relationship obtained showed that attitudinal outcomes lead to behavioural effects, which in turn, impact on sales performance at the unit level. This researcher concurs with: Ajzen and Fishbein's (1977) model suggesting the compatibility between AOC and OCB; Organ's (1988) statement that when aggregated for people and over time OCB can improve business sales performance; and Ferris, et al.'s (1998) assertion that collective OCB, on the margins, can differentiate the degree of organizational effectiveness.

## **Chapter 6**

### **Discussion**

This research addresses the HR ‘black box’ problem about which, as has been raised in recent HR-performance literature, it still remains unclear how HR practices can positively influence business performance (Boselie, et al., 2005; Boxall & Purcell, 2008; Guest, 2011; Wall & Wood, 2005; Wright & Boswell, 2002; Wright & Gardner, 2003). These authors commented that although the employment practices are aimed at enhancing employee performance, the employees’ perceptions of and reactions to the received practices have been largely ignored in previous HR-performance research. Other researchers have pointed to the influence of HR implementation as a causal variance in the HR-performance relationship because differences in its quality can result in variance in perceptions of the employment practices across the employees, even if they are in the same organization (Nishii & Wright, 2008; Purcell & Hutchinson, 2007; Wright & Nishii, 2004). Since it is these perceptions that actually drive the employee discretion and subsequently, the business outcomes, there is a general agreement that adopting an HR implementation focus as well as an inclusion of the employee perspective in the HR-performance investigation would facilitate understanding of the employee interaction in this causal chain and hence, the linking mechanisms underpinning the HR-performance process would be unveiled.

To this end, this multidisciplinary and multilevel research takes a social exchange approach to investigate the process underlying HR black box (figure 4-1).

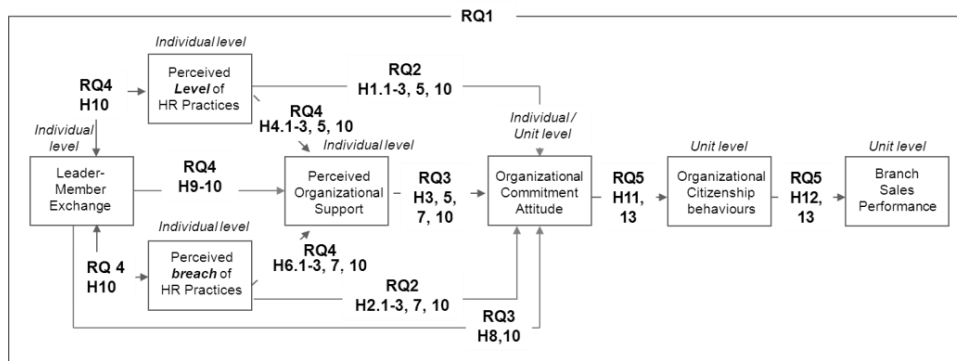


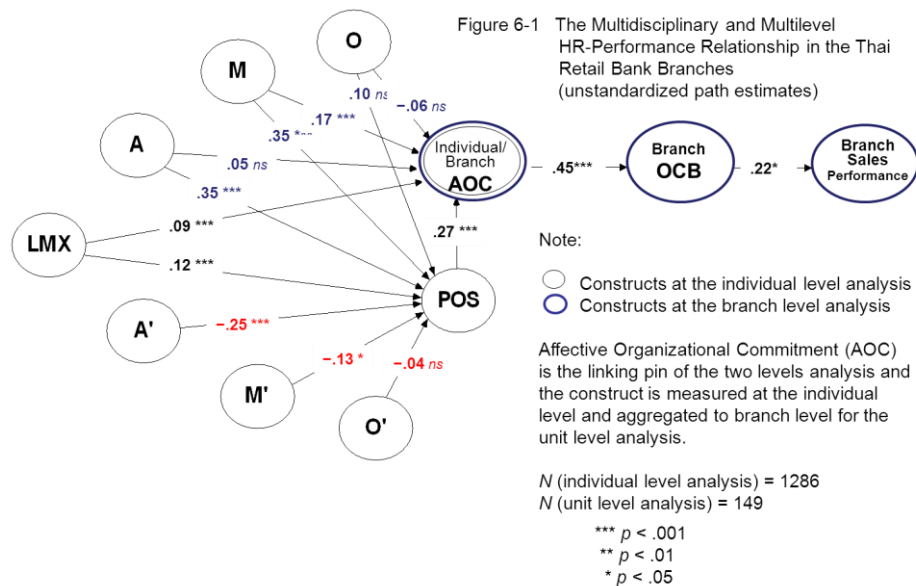
Figure 4-1 The Associations of the Research Questions and Hypotheses with the Proposed Research Framework

The analysis of this proposed model was divided into the influence of HR implementation on employee outcomes (chapter 4) and the linkages of the individual and the unit level performance (chapter 5). In this chapter, the main empirical findings are synthesized in order to provide an overall evaluation of the contributions in this thesis, first, in relation to the gaps identified in previous literature that have been addressed. This is followed by a discussion of the limitations of this thesis and finally, proposals are put forward for future research.

## 6.1 Multidisciplinary and Multilevel HR-Performance Linkages: The Findings

This study has had the goal of establishing whether employee experiences with and reactions to HR practices at the individual level can influence outcomes at the organizational level. In order to address whether the findings have achieved this, the results from the reports of HR-performance exchange relationship in the individual level analysis (chapter 4) are integrated and discussed along with those regarding the individual-organizational performance linkages for the unit level analysis (chapter 5). Recall that the results from the individual level analyses provide support for the reciprocal relationships between the employee and the employer, in that: 1) perceived HR practices (level/breach) are understood by the employees as the levels of management support and commitment to them and this drives their commitment responses to organization; 2) as predicted, the

reports of HR level have positive associations with employee commitment, whereas breach perceptions show counter effects; 3) the perceived HR practices (level/breach) are influenced by the employees' exchange relationship with their line managers who are mainly responsible for enacting the employment practices; and 4) the activities undertaken by the line manager are seen as reflecting the level of support and commitment adopted by the organization. Moreover, from the branch level analysis it has emerged that collective commitment attitudes have an impact on branch sales performance through their engendering of citizenship behaviours at the unit level (figure 6-1).



Taken together, the results have provided evidence that the employees' assessment of the total organizational offer (i.e. HR level and breach perceptions representing the quality of the organizational exchange content, and LMX and POS representing the quality of the organizational agents in HR delivery) structurally feeds into the causal chain, as it has an impact on branch sales performance through a sequence running through employee commitment and citizenship behaviours. In addition, the use of a predictive design approach for the research (Wright, et al., 2005), in which branch sales performance was measured 12 months after employees' reports of HR experiences and their reactions were obtained, has allowed for a firm causal

conclusion that the links between HR practices and business sales performance are established through the employee.

## **6.2 Theoretical Implications**

### **6.2.1 The Process Underlying the HR Black Box**

The results have revealed the process through which HR practices influence business results and in particular, they confirm that the HR-performance relationship entails a multilevel pathway, which is consistent with Ostroff and Bowen's (2000) contention that there exist multilevel linkages between HR systems and business performance. Moreover, the findings have provided support for the claim that employee is the linking mechanism in the HR-performance process (Becker & Gerhart, 1996; Becker & Huselid, 2006; Boselie, et al., 2005; Boxall & Purcell, 2008; Guest, 2011; Nishii & Wright, 2008; Ostroff & Bowen, 2000; Purcell & Kinnie, 2007; Wright & Boswell, 2002; Wright & Gardner, 2003). In other words, the study has endorsed the position that the HR-performance linkages involve multilevel relationships, whereby HR practices measured as the perceived individual level can be meaningfully employed to explain the impact on group level outcomes. Furthermore, the study findings are aligned with the 'behavioural perspective' of HR-performance research (Wright & McMahan, 1992) that HR practices can influence business performance through their effects on employee attitudes and behaviours. More specifically, employee experiences with HR practices have been found to impact on business sales performance through their influences on commitment responses and citizenship behaviours.

As such, the findings have highlighted the 'human factor' in the HR-performance relationship (Guest, 1997) in that they provide robust evidence for the claim that it is the employees who perform in ways that allow the organization to achieve the desired performance outcomes (Boxall & Purcell, 2008; Lepak, et al., 2006). Further, the reported sequential effects



of employee commitment and citizenship behaviours on business outcomes have also confirmed the notion that only through employee actions that manifest themselves as the strong intent to exert efforts on behalf of the organization can business objectives be achieved (Nishii, et al., 2008; Ostroff & Bowen, 2000; Purcell & Kinnie, 2007). These findings have made significant advances in unpacking the HR black box (Boselie, et al., 2005; Boxall & Purcell, 2008; Wall & Wood, 2005; Wright & Boswell, 2002; Wright & Gardner, 2003), not simply by revealing the processes within, but also by explicating the degree to which the HR practices being applied influence employee outcomes in the HR-performance process. In sum, the pathways through which HR practices have an impact on business performance have been elicited, in particular, the arterial causal chain that runs from perceived practices to organizational outcomes through commitment attitudes and citizenship behaviours.

### **6.2.2 Employee Perceived HR Practices and the Variability within the Organization**

Nishii and Wright (2008) have argued that HR practices can serve as a signalling function by sending messages that employees use to define the psychological meaning of their work situation, which subsequently prompts their reactions. That is, employees can have a different interpretation of the received practices owing to their unique experiences in the HR enactment process, brought about by a combination of their tenure in the organisation, relationship with their line manager, views on organizational intent and even their personal traits (Rousseau, 1995; Rousseau & Greller, 1994). As a result, owing to the psychological contract process, even if the employees belong to the same organization and share common employment practices, their perceptions of and reactions to the actual or received practices may not be the same.

Consistent with previous research (Nishii, et al., 2008), the results confirm this notion of variability within the organization. Whereas Nishii et al

reported variance in customer services resulted from the employee opinion regarding HR attribution, this study showed the influence of the psychological contract process on the variance in branch sales performance. That is, their perceptions of the received practices prompt their understanding of the organizational exchange relationship, which in turn impact on their level of discretionary performance to support the organizational achievement. Had the focus in this research been simply on one single informant reporting HR practices in their organization, as was the case in previous research in SHRM, this variation would not have been identified (Boselie, et al., 2005; Wall & Wood, 2005). Thus, it is imperative that the employee is considered the key informant as it is the assessment of their perceived practices that is essential in any HR-performance investigation, if the outcomes are to elicit clearly the process through which HR practices influence business performance (Wright & Boswell, 2002; Wright & Gardner, 2003).

### **6.2.3 A Holistic View of Employee Perceptions of HR Practices: Using Two-Sided HR Experiences**

In relations to subsection 6.2.2, Wright and Nishii (2004) have further argued that because several organizational agents are responsible for HR implementation (e.g. senior management, line manager, HR personnel) and employees, the recipients of HR practices, are at the end stage of this process, it is likely that their perceptions of HR practices could be different from the organizational intended ones. This perceived discrepancy can also prompt the psychological meaning of the employment practices in the organization and employee exchange relationship (Conway & Briner, 2005). In response, HR scholars have contended that apart from the perceived HR level which is the typical measure of HR practices in SHRM research (Boselie, et al., 2005), the psychological contract breach of HR practices (Rousseau, 1995) could also be a potential pathway through which HR black box could be unpacked (Boxall & Purcell, 2008; Nishii & Wright, 2008; Wright & Nishii, 2004; Wright & Boswell, 2002; Wright & Gardner,

2003). This study is among the first that integrates employee psychological contract into the investigation of HR-performance relationship and has provided the evidence that breach notion coexists with the other dimension of HR experiences in informing employee responses in the causal chain. That is, whilst the HR level is positively associated with employee commitment, breach perceptions have the counter effects (figure 6-1). These findings have undermined the claim from the proponents of the high performance paradigm (e.g. Pfeffer, 1998) that organizations can take advantage by adopting HPWS, because the results have revealed that the value benefits of what is made available to the employee (HR level) can be diminished if, in the implementation process, employees perceived that organization has breached their psychological contract. In other words, the outcomes have added the need to consider a new element when evaluating HPWS effectiveness, that being breach of psychological contract, because this can impact negatively on HR benefits, thereby hindering business results.

Consequently, the contention here is that were the employee psychological contract to be excluded, with the focus only on the employee responses to their perceived HR level, this would hinder the achievement of a comprehensive understanding of the observed variations in HR effects on employee outcomes and subsequent organizational performance. Therefore, adopting a holistic view of employee experiences in the HR process by taking both HR level and psychological contract breach into a single study, as has been engaged with here, has led to the elicitation of a more complete set of information for disentangling what constitutes the hitherto elusive trails within the HR black box. Hence, this has provided useful steers on how to improve the value benefits of HR content for a better organizational outcome, than if HR level was taken to be the only criterion of interest.

#### **6.2.4 HR-Performance Relationship and the Variability within the Organization: The Social Exchange Framework**

This researcher draws on the concepts and mechanisms underlying social exchange theory to conceptualize the HR-performance model and subsequently, to test empirically the hypothesized relationships, as shown in figure 6-1. As with previous research, the results have confirmed the notion that employee perceptions or their perceived value of HR practices are significantly associated with their levels of contribution to support the organizational goals (e.g. Coyle-Shapiro, 2002; Liao & Chuang, 2004; Purcell & Hutchinson, 2007; Takeuchi, Chen, & Lepak, 2009; Takeuchi, Lepak, Heli, & Takeuchi, 2007; Wayne, et al., 1997). Perhaps more importantly, consistent with social exchange theory (Blau, 1964), the findings have also revealed that the employees interpreted the value of the received practices beyond the concrete value of the HR commodities that were exchanged. That is, in their eyes, the quality of the organizational exchange parties was able to provide value added to these resources.

It emerged that the employees associated the value benefits of the HR content for each organizational agent involved in the HR delivery process, namely: senior management and their line manager, although simultaneously, in a different and meaningful way (Coyle-Shapiro & Conway, 2004; Shore, et al., 2004). In particular, employees attributed the availability of HR practices as being senior management's commitment, care and support for their well-being and achievement (Coyle-Shapiro & Shore, 2007; Eisenberger, et al., 1986). The significant relationships found in the links of perceived HR level and breach with perceived organizational support provides clear evidence that if the senior management made themselves aware of what the employees perceived to be their socio-emotional needs then this would add to the value benefits of the perceived employment practices. This in turn, facilitated an increase in employee affective responses to support the achievement of the organizational goals (figure 6-1).

As for the quality of the supervisor, who is the main agent responsible for the local management of the employment practices, the results have revealed that the interpersonal relationship between the supervisor and staff or leader-member exchange quality can have an impact on the perceived value of HR benefits. That is, LMX is correlated positively with perceived HR level and negatively with breach perceptions (p.158). Because the strength of the relationship between staff and line manager allows for a development of high interaction between parties (Graen & Uhl-Bien, 1995), the line managers in the high LMX terms with the employees would be able to provide organizational resources and support that corresponds more closely to the employees' needs. Furthermore, as the trust underpinning the high quality LMX becomes increasingly embedded, this would minimize breach perceptions. Hence, it is concluded that line managers can influence HR value benefits through the relational process by devising the strategies to strengthen the dyadic relationships with their staffs.

In summary, the findings from this research extend the theoretical foundations underpinning extant HR-performance research in that by adopting the social exchange framework to test the employer-employee relationship in the HR implementation process, robust new insights into what construes the employee perceptions of the received practices have been revealed. That is, the HR exchange content and the organizational exchange parties concomitantly form employee opinions regarding the organizational total offer in the employment relationships. This then leads to their responses and subsequently, contributes to the organizational outcomes. In addition, since HR practices are managed locally by the line managers, the employees, even if they share the common employment practices, may find their experiences with HR practices unique according to their individual relationships with the line manager (Boxall & Purcell, 2008; Nishii & Wright, 2008; Purcell & Kinnie, 2007; Wright & Nishii, 2004). That is, the different quality of the line managers can account for variance in employee perceptions of and reactions to the HR practices. As a result, the way in which different line manager implemented HR practices can also account for the variability in the HR-performance relationships across

business units. These findings reinforce the need to focus on the HR enactment process, because they provide further evidence that differences in HR implementation quality can lead to differences in organizational outcomes (Becker & Huselid, 2006; Nishii & Wright, 2008).

### **6.3 Practical Implications**

From a practical perspective, the findings from this study would be useful for HR practitioners who wish to convince businesses on the efficacy of investment in people, particularly during economic crunch periods when all spending needs to be heavily scrutinized regarding its utility for business growth and sustainability. HR managers can show senior management that high performance HR practices can produce tangible benefits on business sales performance, through its advantage of providing employees with the ability and motivation to support the business endeavour. However, HR managers, in practice, should pay attention both to what constitutes the high performance HR systems being made available and how it is implemented, particularly to the latter if the organization is to ensure that the intended benefits of these practices are retained so as to engage fully the employee participation in delivering organizational goals. This is because not only do employees judge what HR content is being received, but also how it is delivered, when forming their opinions regarding future reciprocation towards the organization.

Regarding the choice of the people management practices, in particular those employed in the retail banking business, the outcomes indicate that special attention should be paid to practices related to employee motivation, including job security, performance reward and profit sharing. These findings are supported by the evidence from other HR-performance studies in the retail banking context, which revealed that these types of practices have significant impacts on measures of business performance, such as the return on equity (ROE), return on assets (ROA) and growth rate of loans and deposits (Bartel, 2004; Delery & Doty, 1996).

In addition, because employee perceptions and their reactions are central in the HR-performance process, HR managers would benefit from making them the focus when deciding what should be on offer. That is, employee preferences of HR practices and especially those with regards to the areas where the organization can improve their psychological well-being, should be identified and monitored regularly. Furthermore, HR managers should liaise with line managers to see whether they need specially targeted or additional resources in order to enhance team performance. As a result, line managers are able to utilize these resources in a timely manner as well as to tailor their strategy in dealing with the employee needs on an individual basis. This would then lead to a strengthening in employee trust in their dyadic relationships and a similar positive spin off regarding their views on the organization's employment practices.

In terms of implementation, should the practices constituting the current HR systems need to be changed, managers are advised to assess the theoretical benefits involved in light of the potential costs to the employee psychological contract, were the proposals to be implemented. Moreover, employees should be involved in any of such a change process, wherever possible. This would reinforce their understandings of the circumstances leading to the need for adjustments and hence, their psychological contracts are less likely to be damaged. Further, other involved parties in the HR enactment process, particularly the line manager, should also be kept well informed regarding changes in the employment practices. These agents can then micro manage their relations with their staff, thereby ensuring minimal discrepancy between the intended and the perceived practices as understood by the employees. Finally, an independent monitoring of the employee psychological contract regarding any changed content would prove beneficial, because as found in this study, what are perceived as slight changes can easily have a profoundly negative impact in the form of perceived contract breach especially, in the areas of employee ability and motivation.

#### **6.4 Limitations and Directions for Future Research**

This study has had several strengths in relation to its design features. For instance, by taking the data from a sample of Thai retail bank branches within a single organization this has allowed for the control for a number of extraneous variables, such as: organizational strategy, product and services, HR practices and organization management, which have been claimed as leading to potential measurement errors in other HR-performance studies (Becker & Huselid, 2006; Gerhart, 2007b). In addition, because the data in relation to HRM effectiveness was acquired from several sources: employee (AOC), team (OCB), and organization (objective measures of sales performance), this permits the ruling out of alternative explanations that could have arisen due to common method bias. However, although a robust set of data has been available for uncovering the mechanisms underlying the HR-performance process, with the focus being on one single organization in a specific setting, generalizability of the results is not feasible. In this regard, generalizability was not one of the goals of the research, but rather the aim was to test theoretical predictions of the process through which HR practices could be firmly established to explain variance in organizational performance. Nevertheless, this researcher would encourage future research applying the model employed here in other settings, so as to assess whether the outcomes can be replicated and hence, some degree of generalizability, retrospectively, can be conferred on these findings.

Next, the relationships expressed in the applied model are based on variance theories (Van de Van, 2007), where a set of independent variables, i.e. organizational exchange content (HR level and psychological contract breach), organizational exchange parties (POS and LMX), employee exchange content or outcomes (AOC and OCB), has provided statistical evidence to explain the variation in the dependent variable, i.e. business sales performance. However, the results are only able to provide support for the view that the process by which HR practices influence business results involves a set of sequential effects of a host of independent variables, which are conceptually related, as supported by the literature. Consequently,



because of the cross-sectional nature of the data of these independent variables, this did not permit any valid tests in relation to the causal ordering regarding the interaction effects of the perceived quality of exchange content and the perceived quality of the exchange parties. Therefore, it is recommended that future research adopts process theories (Van de Van, 2007) to integrate exchange content, exchange process and exchange parties into a single study. As such, a sequence of events or interactions in the exchange relationships could be captured so as to explain change in employee attitudes about employment practices and hence, their subsequent behavioural outcomes in a causal manner.

Further, as with other multilevel studies adopting a structural equation modelling approach to analyse the hierarchical data structure, the individual and unit level analyses were tested separately with the link between these two levels involving an aggregation of data from individuals within each unit to represent the unit response to HR practices (Nishii, et al., 2008). Although this approach has been advised as an appropriate method for multilevel data analysis (Kozlowski & Klein, 2000), it would be a valuable extension for future research to test a fully-specified multilevel model, in which the individual and unit level variables could be tested in a single analysis (Muthen & Muthen, 2010).

## **6.5 Conclusion**

This research contributes to the HR-performance literature by illustrating how the social exchange approach can be used to explain employee interaction in the HR-performance causal chain. More specifically, the HR-performance model was developed and tested to this end, using gathered data in the field through a robust methodological approach. This model constituted three important elements of social exchange, i.e. exchange content, exchange parties and exchange outcomes, in which these were conceptualized so as to reflect the employer-employee exchange

relationship in the HR-performance causal chain. The results have concurred with the key tenet underpinning social exchange theory, whereby its proponents have claimed that employees reciprocate to the organization according to the perceived value of HR benefits received and conversely, the organization gains employee contribution in relation to its investment in people. Consequently, the organization can improve branch sales performance by their careful implementation of the employment practices, because employees, based on their perceptions of the organizational offer on receiving, reciprocate the organization with their discretionary performance and hence, these outcomes can have an impact on business results.

Furthermore, through social exchange mechanisms it appears that employee perceptions of HR practices are not simply an assessment of what is made available for them, but also constitute an assessment of how these practices are delivered. That is, employees take into account both the quality of the organizational exchange content (HR level and breach of HR practices) and the quality of the exchange parties (their relationship with their line manager and their understanding of management intent regarding people management) to evaluate the total benefits of organizational offer regarding HR practices and thus, this informs the nature of their responses in the causal chain. Hence, these outcomes provide crucial insights into what construes HR experiences in the eye of the employee and their subsequent reactions within the HR black box. Whilst additional research is needed to explore these relationships, this researcher is of the opinion that this study has provided firm theoretical foundations for any future investigations that involve the adoption of the lens of social exchange for HR-performance research.

## Chapter 7

### Conclusion

#### 7.1 Introduction

In this study the HR-performance relationship has been explored by conducting multidisciplinary and multilevel research in a large retail bank. It has become apparent that by incorporating the social exchange perspective into the HR-performance investigation, this researcher has achieved the two main outcomes that meet the objectives set out in chapter 1. That is, a contribution has been made to the literature by providing a theoretical explanation regarding 1) how HR practices can influence business results and 2) why the same set of intended HR systems, deployed within the commonly shared environment of a single company, can result in variance in the performance across the business units within the firm. Furthermore, the study findings have provided the evidence to allow for all the research questions set out in chapter 2 to be thoroughly addressed (see figure 4-1).

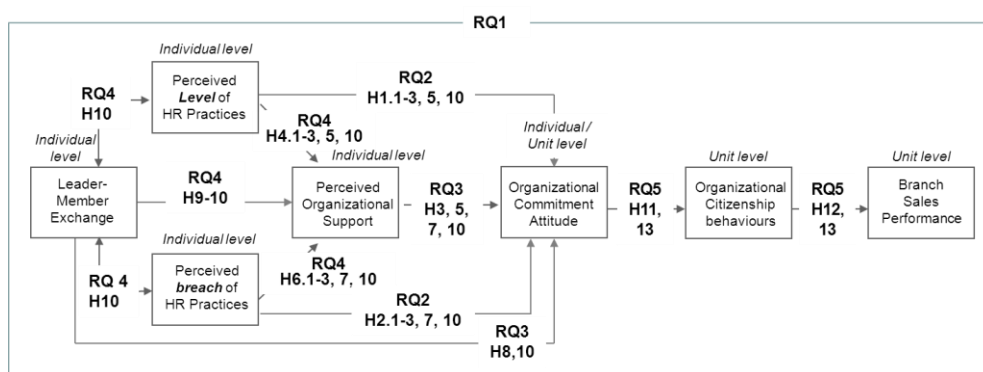


Figure 4-1 The Associations of the Research Questions and Hypotheses with the Proposed Research Framework

More specifically, research questions 2-4 have been addressed with reference to the empirical findings from the individual level analysis (H1-10 in chapter 4), whereas research question 5 has been addressed in the unit

level analysis (H11-13 in chapter 5). Finally, the principal research question, research question 1, has been responded to in the discussion on the multilevel analysis in chapter 6. Theoretical concepts and results in relations to these research questions were explained and discussed in each of these chapters along with contributions to knowledge, limitations and proposals for future work specific to each of the empirical analyses.

The objective of this concluding chapter is to synthesize the main findings of the study and draw out their implications on a wider context of strategic human resource management literature. To begin with, the key theoretical contributions obtained from engaging the social exchange and psychological contract theories to elicit more clearly an explanation of the HR-performance relationship, than has hitherto been achieved, are first presented (section 7.2). Next, key practical implications are provided (section 7.3), which is followed by a discussion on potential areas for future research (section 7.4) and a concluding remark regarding this particular research endeavour (section 7.5).

## **7.2 Theoretical Contribution**

This research has been inspired by ongoing debates regarding the HR-performance relationship, in that although nearly two decades have passed since pioneer studies revealed the positive associations between HR practices and business results (Delery & Doty, 1996; Huselid, 1995; MacDuffie, 1995), the underlying processes and the theoretical explanations underpinning HR-performance relationships remain unclear (Boselie, et al., 2005; Guest, 2011; Wright & Boswell, 2002; Wright & Gardner, 2003). This researcher has adopted the social exchange lens to address these gaps in the literature, thereby identifying several processes underlying the HR-performance relationships which an organization can exploit through its human resources management so as to achieve sustained competitive advantage (Wright, et al., 1994).

The study findings have supported the position taken by many HR-performance scholars in recent years: (1) that people are at the heart of the HR-performance process; (2) that there exist multilevel linkages between the employee and organizational performance; and (3) that organizations' human resources are potential sources of sustained business competitive advantage. In particular, the results have revealed that employee perceptions of HR practices influence their discretionary performance in the form of organizational commitment and organizational citizenship behaviours, which in turn have an impact on an increasing in branch sales performance.

Perhaps a more significant achievement of this work lies in its contribution to the explanation of why common HR systems operationalized within a shared environment can be perceived differently by employees across business units. More specifically, the findings have elicited that employee discretion in the HR-performance relationship is not only influenced by employee assessment of the intensity or level of HR practices being received, as typically studied in SHRM research (Boselie, et al., 2005), but it is also driven by the affective, relational and psychological contract processes that employees experienced in the course of HR implementation (figure 7-1). In this regard, the key driver that differentiates employee discretion and sales performance across branches is the quality of the line managers in enacting the employment practices, which the employees experienced in the relational process. As shown in figure 7-1, apart from its direct impact on employee discretion (E2), the way in which the line managers implement HR practices can also influence the psychological contract and affective processes (D11-2), which in turn, feed to the level of employee discretion (E1 and E3). This is explained in more detail in the relational process section.

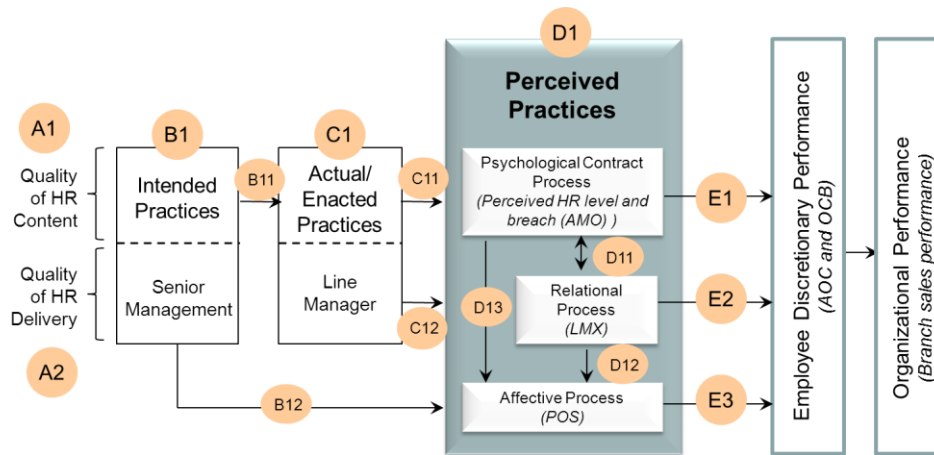


Figure 7-1 Processes Underlying the HR-Performance Relationship  
 Note: The variables used in the empirical model are shown in *italic*.

The above contention is based on the notion underlying Blau's (1964, 1968) social exchange theory that social exchange is an unspecified obligation requiring trust that the other party will reciprocate according to an undefined timeline. Therefore, the benefits of the social exchange involve both the value of the content of the exchange and the psychological aspects of this investment e.g. trust in the other party. As a result, those who receive these benefits are unlikely to be able to detach the value of the exchange content from the source or the party that supplies them. Accordingly, employee experiences with HR practices involve the assessment of both the perceived value of the HR content itself and the perceived quality of the organizational agents responsible for its delivery. Consequently, it is logical to conclude that employee discretionary performance is driven by the various processes associated with both what is delivered and how it is delivered (see A1 and A2 in figure 7-1).

The HR-performance process depicted in figure 7-1 is built upon Wright and Nishii's (2004) process model of strategic human resource management and as explained in section 2.2, the focal interest of this research was on the perceived stage of HR practices (see D1 in figure 7-1). In relation to this, consistent with Nishii and Wright's (2008) assertion, the results have shown through the psychological contract process that the quality of what is received, as represented by perceived HR level and breach, informs

employee understanding of the organization's terms of exchange and hence, their level of reciprocation (see pp. 162-3 and E1 in figure 7-1). In addition, because the practices received by the employees are devised through senior management's decisions on the intended HR systems and the line managers' discretion when delivering these practices to them (Coyle-Shapiro & Shore, 2007; Purcell & Hutchinson, 2007; Wright & Nishii, 2004), the employee on receiving these practices, according to Blau (1964, 1968), also simultaneously assesses the quality of these two key providers (see D11 and D13 in figure 7-1) (Coyle-Shapiro & Shore, 2007; Purcell & Hutchinson, 2007; Wright & Nishii, 2004). In this regard, it emerged that the quality of these agents in delivering HR practices partially influences the level of employee discretionary performance, with the line manager being responsible for the relational process and senior management for the affective one (see E2 and E3 in figure 7-1). Furthermore, the results of the test of the integrative model (pp.159-60) revealed that all these processes (psychological contract, relational and affective processes) have a significant impact on the employee commitment responses in the HR-performance causal chain and therefore, understanding these processes is imperative, if employee interactions in the HR-performance causal chain are to be unveiled. How each of these processes is associated with employee experiences with HR practices and their reactions in the causal chain is explained next in more detail.

### *Psychological Contract Process*

The psychological contract process refers to the interactions of the employee with the received HR practices and how these inform their perceptions of and reactions to them in the HR-performance causal chain. In this regard, Nishii and Wright (2008) have explained that the likelihood that employees will exert positive discretionary efforts is based on their perceptions and evaluations of HR practices. This is because these can serve as a signalling function by sending messages that the employee can use to give psychological meaning to their work situation (Guzzo &

Noonan, 1994; Rousseau, 1995, 2001; Rousseau & Greller, 1994). In other words, the perceived quality of the received practices can form the employee psychological contract by prompting their understanding of the degree to which the organization is acting in their interests, which in turn impacts on the amount of effort the employees are prepared to put into serving the organization.

Having taken up the notion of the psychological contract process into this investigation of the HR-performance relationship, it appeared that employees simultaneously perceived the quality of the received practices in two important ways (pp. 162-3). On the one hand, they appreciated the level of HR practices being received or the extent to which they had been receiving the practices in question, which positively shaped their commitment responses to the organization. Whilst on the other hand, they were simultaneously weighing up perceived instances of organizational breach of promises regarding HR practices and where these existed they had negative effects on employee discretionary efforts, because these could undermine their level of trust in the organization in the exchange relationship (Robinson, 1996). That is, employee discretion was driven not only by the provision of HR practices, as typically presented in the SHRM literature (Boselie, et al., 2005; Wright & Boswell, 2002), but also by the perceived extent to which the received practices had met the employees' terms in the psychological contract. This latter perspective has been researched and supported rigorously in the psychological contract literature (Conway & Briner, 2005; Zhao, et al., 2007) and several SHRM scholars have discussed its potential implication for unpacking the HR black box (Boxall & Purcell, 2008; Wright & Boswell, 2002; Wright & Gardner, 2003). However, this research is among the first to integrate empirically the breach notion in HR-performance research. Therefore, this integrative study on the holistic view of employee experiences with HR practices has extended the SHRM literature in that it has revealed the different interpretations that the employee can have regarding the received practices and hence, the observed different reactions in the HR-performance relationship.



### *Relational Process*

The relational process involves the exchange relationship between the line manager and employee and how this can influence the latter's perceptions and reactions in the HR-performance causal chain. That is, as shown in figure 7-1 (see C1), line managers are assumed to play a critical role in the delivery of HR practices because they are responsible for HR enactment at the local level. Their discretion regarding the use of these practices to manage employee performance can impact on the employee perceptions of the organizational offer in the employment relationship (Boxall & Purcell, 2008; Coyle-Shapiro & Shore, 2007; Purcell & Hutchinson, 2007; Wright & Nishii, 2004). In this regard, previous research has reported on the influence of the specific quality of managers in enacting HR practices and managing the performance of a team, such as their behaviours when undertaking performance appraisal and the level of their problem solving skills (Bartel, 2004; Purcell & Hutchinson, 2007; Purcell, et al., 2009; Truss, 2001).

This research has extended the literature by applying a relationship-based approach to leadership, that is, leader-member exchange (LMX) (Graen & Uhl-Bien, 1995) to investigate HR-performance association. The key tenet of LMX theory is that different strengths of the relationships between line managers and employees or the LMX quality can influence the way in which the former allocate organizational resources to their dyads, which in turn can affect the employee perceptions of and reactions to the received practices (see C11-2 in figure 7-1). In other words, because of the variations in the strength of the dyadic relationships between employees and line managers across business units, it is likely that the enacted practices can differ from the organizational intended ones thereby the understanding regarding HR practices can become diffused in a wider population of the employees. In this regard, the empirical results have revealed that the relational process can influence employee discretionary performance indirectly through its influence on the psychological contract and affective process (see D11-2 in figure 7-1), as well as directly through the strength of

the relationships that the employees have with their supervisors (see E2 in figure 7-1).

In relation to indirect influence through the psychological contract process (see D11 in figure 7-1), the positive correlations between LMX and perceived HR level reported in table 4-4 (p.158) are consistent with the notion that line managers who have high LMX quality with their staffs are more likely to attend diligently to each dyad's needs and concerns and thus they can provide more appropriate resources to support their staff's achievement. Under these circumstances, the employees' perceived value benefits of HR practices will be increasing, because what is being delivered closely corresponds to their needs and in turn, this will strengthen the LMX relationships that they have with their line managers, with the overall result being the establishment of a continuous loop in the dyadic exchange relationship. Likewise, the negative correlations between LMX and breach perceptions shown in table 4-4 (p.158) are in line with LMX theory (Graen & Uhl-Bien, 1995), in that perceived high quality LMX can engender high levels of trust in the employees towards their line managers and hence this can minimize perceived breach of psychological contract. This is because employees with high LMX are confident that their managers will deliver the promises being made to them as and when appropriate and once this has happened this will reinforce the strength of the dyadic relationship. From the results, it emerged that employee experiences regarding the received practices, both favourable and unfavourable, that were established through the relational process, fed into the next stage in the causal chain, that of discretionary performance (see D11 and E1 in figure 7-1).

As for its indirect influence through the affective process (see D12 in figure 7-1), the established relationship found from LMX to employee commitment through POS (pp. 162-3) is consistent with Levinson's (1965) argument regarding the transference of HR implementation responsibility. That is, the employees see LMX activities undertaken by the line managers as, to some extent, the level of organization support, which in turn

influences their affective responses to the organization (see D12 and E3 in figure 7-1).

With regards to the direct impact of the relational process on employee discretion (see E2 in figure 7-1), it was found that high quality LMX directly influences employee willingness to further the goals of the organization (pp. 162-3), because an exchange of valuable resources allows the employee in this relationship to achieve their performance objectives and hence, they are likely to identify more strongly with the organization (Wayne, et al., 1997).

### *Affective Process*

The affective process is concerned with the exchange relationship between the employee and the organization (in this study having been referred to as senior management) that can influence employee perceptions of and reactions to the HR-performance process. More specifically, it refers to the exchange between the organization's commitment to the employee and vice versa, which is conceptually based on the key tenets underpinning perceived organizational support theory (POS) (Eisenberger, et al., 1986). That is: (1) the organization's provision of HR practices reflects its level of commitment, care and support in meeting employee socio-emotional needs and providing the necessary help to enable them to carry out their jobs effectively; and (2) based on norm of reciprocity (Gouldner, 1960), employees will respond by providing discretionary effort to the degree that they perceive the organization is committed to giving them this care and support.

Whilst the exchange of affective commitment between organization and employee has been studied widely at the individual level (Meyer, et al., 2002; Rhoades & Eisenberger, 2002), an integration of this process into a multilevel HR-performance exploration has been carried out in very few

studies (cf. Takeuchi, Chen & Lepak, 2009)<sup>24</sup>. However, it would appear that this type of exchange process is also very important for enhancing understanding of the HR-performance relationship. As shown in figure 7-1, the perceived practices that are at the end stage of HR implementation (see D1 in figure 7-1) are cascaded from the intended level that rests with management decision making on which practices are to be deployed to support the organization (see B11 in figure 7-1) and in this study these practices are the HPWS which are aimed at enhancing employees' ability, motivation and opportunity to participate (AMO). Therefore, employee perceptions of the received practices can be partially influenced by the quality of the management team in relation to their ability to take decisions on the design and redesign of the HR systems that correspond well with their socio-emotional needs (see B12 in figure 7-1).

In particular, the associations found between perceived HR practices (HR level and breach) and perceived level of management support (POS) (pp.162-3) are analogous to the employee causal attribution (Nishii, et al., 2008), in that the employees attribute perceived value benefits of HR practices to management's intentions regarding their care and support and interpret this to the levels of perceived organizational support (see D13 in figure 7-1). This, in turn, has an impact on their levels of affective response to the organization (see E3 in figure 7-1). In sum, by including the affective process in addition to the relational and psychological processes into the HR-performance investigation, this study has presented more comprehensively what is inside the HR black box, because it has incorporated the other key constituency, senior management, who can also fundamentally influence employee interactions in the HR causal chain through their influence on employee perceptions of the intended practices.

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<sup>24</sup> Takeuchi, Chen and Lepak (2009) have used the similar notion of this exchange relationship in their study, but they conceptualized perceived organization support as the establishment-level for employee climate and hypothesized its mediating role in the relationship of establishment-level HPWS and employee attitudes.

### **7.3 Practical Implications**

Whilst this research inquiry was largely generated in response to ongoing academic debates, with its findings having provided theoretical contributions to the field, its implications for the HR practitioner and business manager are also highly relevant. The key learning here is that organizations can benefit, in terms of enhanced business results by investing in HR practices. The underlying mechanism that underpins this relationship involves ensuring that HR practices are aimed at promoting employee ability, motivation and opportunity to participate (AMO), for by doing so this increases levels of employee involvement, identification with the organization and discretionary behaviours that support organizational achievement. However, an organization will not achieve high returns on its investment if those responsible for implementing HR practices fail to recognize the importance of the central role of the employee as the recipient of these practices. That is, in order to retain and improve the level of employee discretionary performance, the employee experiences in relation to the affective, relational and psychological contract processes in the HR-performance relationship must be carefully considered.

First, the employee psychological contract should be monitored regularly. This should include a regular assessment of employee perceptions regarding the current level of HR practices being received and a consideration of the possible extent to which the organization may have breached their psychological contract terms. This is because, as shown in figure 4-5, whilst the level of HR practices that the employees have been receiving can engender a positive association with their level of discretion, perceived breach of these practices can rapidly have a negative impact on employee commitment levels. Therefore, managers should ensure that they keep abreast of how HR implementation is impacting on employee perceptions of these practices. The monitoring could be implemented periodically through an organizational survey and in particular, when the organization has implemented change initiatives. Moreover, other sources of information may also be useful, such as suggestion boxes and information from

employee exit interviews, HR site visits and employee performance appraisals. In addition, managers, wherever possible, should observe the causal relations between employee outcomes, particularly employee discretionary performance, and each of these psychological contract components or changes in them, because this would provide useful information to identify more appropriate corrective actions and possible future HR initiatives.

Second, if an organization wants to make any changes in its employment practices, then the senior management team must have the employees as their focal attention and assess the implications that these changes may have on their affective responses and psychological contracts. In terms of implementation, the parties involved in the HR enactment process, particularly the line managers, should be kept well informed regarding these changes for effective local management. In addition, some, if not all, relevant employees should be involved in any change implementation, because their input can be useful for improving the design and/or management of the change process. Moreover, having employees engage in the process would facilitate their understandings of the circumstances regarding the change, thereby resulting in less likelihood that their psychological contracts will be damaged and hence their discretionary performance will be minimally affected. Furthermore, their involvement can also help through their supportive promotion of change initiatives to a wider population.

Third, HR managers should seek to strengthen the relationship between the line managers and their staffs. One way to do this is to involve line managers in the HR planning process, because this would allow them to have a broader view of people management in the organization and would help ensure that the specific resource needs of each line manager were being addressed. Moreover, this would give them opportunities to raise any concerns they have before the HR plans go live. Further, by doing so the managers would be able to gain the resources that fit with their employee needs, have a realistic plan for resource allocation across the team members

(e.g. adjusting the existing promises having been made to the employees, making fewer new promises, prioritizing the allocation of the limited resources) and obtain sufficient HR information to handle the queries arising from the employees. The most important point here is that the managers should seek to provide the employees with what they have promised and that they should not make any promises that they cannot keep. This will then lead to a strengthening in employee confidence and trust in their line managers and consequently, a higher quality LMX relationship.

Furthermore, HR managers should provide channels to improve the interactions between line managers and staff, particularly with new staff members, because this would allow for both parties to learn about each other and catch up with the prevailing work situation. Employees could also use this opportunity to express their needs regarding the level and type of support they expect from their line managers or the organization. In this regard, the organization could reinforce this process by including a quarterly meeting between the line manager and staff as part of the performance objectives for both the employee and the manager. Additionally, the provision of an in-house programme for first line leadership development would prove to be of benefit. This is because such a programme can provide the space for the organization to communicate its ethos regarding people management and its expectations regarding how a line manager should manage human resources so as to ensure sustained business competitive advantage.

Fourth and last, it is important to bear in mind that line managers are staff themselves and that their psychological well-being also needs to be catered for by their own line managers, if they are to be able to take good care of their subordinates.

## **7.4 Limitations and Directions for Future Research**

The tested model for this study has provided a strong foundation for future SHRM research, in particular, because of the adoption of a social exchange approach to enhance the current understanding of the linking mechanisms underlying the HR-performance relationship. That is, the multidisciplinary and multilevel HR-performance model, as sequentially constructed in chapter 2, was based on the current debates surrounding HR black box to integrate the existing theoretical models of HR-performance relationship (Nishii & Wright, 2008; Ostroff & Bowen, 2000; Purcell & Kinnie, 2007; Wright & Nishii, 2004) with social exchange theory (Blau, 1964, 1968) and psychological contract (Rousseau, 1995, 2001). Therefore, this researcher is of the opinion that the empirical model applied to this research was strongly embedded in the current debates on strategic human resource management. Whilst this research has obtained a robust dataset to test the model, generalizability of the results is somewhat limited, because they were generated from the narrow focus of one specific job group, i.e. customer contact employees working in one large retail bank. Consequently, it is proposed that future research should test the same model on other job groups and/or in different business sectors to elicit differences and similarities in relation to these outcomes. For example, it is possible that the relational process (LMX–HR perceptions–employee discretion) is more significant among non-professional job groups (e.g. clerical and administrative staff) than professional ones (nurses, scientists, engineers, accountants), owing to the different degree of work interdependence of these two job clusters (Cohen, 1992).

Furthermore, this empirical analysis is based mainly on cross-sectional data with the exception for the cross-lagged data in business performance and hence the results can only elucidate upon the relationships between employee discretion, the quality of the exchange content (HR level and breach) and the quality of exchange parties (POS and LMX) in informing the mechanisms underlying HR-performance processes at one particular point in time. Future research could involve the employment of a



longitudinal strategy to observe the causal ordering of the exchange relationships underlying the affective, relational and psychological contract processes. For example, one might want to test, explicitly, the dynamics of the relational and psychological contract process by examining the links of LMX in time 1 with perceived HR level and breach perceptions in time 2 and subsequently, the impact the latter have on LMX in time 3. As a result, it would be possible to establish the causal relationship in the relational process and also to observe more clearly the influence of line managers on employee perceptions of HR practices in the psychological contract process.

Moreover, this researcher has undertaken the HR best practice approach into the HR-performance investigation, by using AMO as the key performance drivers in HR-performance causal chain (Boxall & Purcell, 2008; Lepak, et al., 2006). Future research may consider the other main perspective of HR-performance relations, i.e. HR best fit approach and test whether the same processes identified in this research through a best practice systems treatment, are still valid and if so, whether their effects are of similar magnitude.

Last but not least, there is a growing body of literature that has established that organizational justice processes (procedural, distributional and interactional) play important roles in shaping employee-organization relationships, the employee psychological contract, the exchange relationship that the employee has with the organization or their line managers, employee affective attitudes and discretion behaviours (Cohen-Charash & Spector, 2001; Colquitt, et al., 2001; Conway & Briner, 2005; Masterson, Lewis, Goldman, & Taylor, 2000; Morrison & Robinson, 1997). Thus, it is possible that these processes could also have a considerable impact in the HR-performance relationship and hence future research may include organizational justice processes in their investigation.

## **7.5 Conclusion**

This multidisciplinary and multilevel research into the HR-performance relationship has made important theoretical and empirical contributions to SHRM literature, by providing insights into the strategic role of human resources as a potential source of sustained business competitive advantage. The empirical evidence has provided support for the HR-performance causal chain, whereby employees' perceptions of HR practices have been shown to have an influence on business results through their impact on employee outcomes, i.e. commitment attitudes and organizational citizenship behaviours. In light of this, several processes underlying the HR-performance relationships have been identified including the affective, relational and psychological contract processes, which have shed light on the conditions under which HR practices can be implemented more successfully. In particular, the quality and behaviours of senior management and line manager in the different stages of HR implementation can have a profound influence on employee perceptions of the organizational offer and their psychological contract terms with the organization, which in turn, impact on their discretionary performance in the employment relationship.

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### Appendix 3-1

#### A Summary of Study Variables, Measures, Data Sources and Level of Analysis (continued to next page)

Study Variables		Measure	Items	Scale	Source	Informants	Level of Analysis
1	HR Practices	High Performance Work System	23	7-point	Delery & Doty, 1996	Staff	Individual
2	HR Obligation	High Performance Work System – question items reworded	23	7-point	Delery & Doty, 1996	Staff	Individual
3	Organizational Commitment	Affective Organizational Commitment	6	7-point	Meyer, et al., 1993	Staff	Individual
4	Perceived Organizational Support	Shortened version of Survey of Perceived Organizational Support (SPOS)	9	7-point	Eisenberger, et al., 1986	Staff	Individual
5	Leader-Member Exchange	LMX-7	7	7-point	Graen & Uhl-Bien, 1995	Staff	Individual
6	Organizational Citizenship Behaviour	Service-Oriented Organizational Citizenship Behaviour – Loyalty (5) – Service Delivery (6) – Participation (5)	16	5-point	Bettencourt, et al., 2001	Staff assess colleagues' OCB	Unit
7	Unit Performance	Branch sales performance	n/a	n/a	Previous studies in HR-performance in the banking industry	HR Contact	Unit

**A Summary of Study Variables, Measures, Data Sources and Level of Analysis (concluded)**

Control Variables		Measure	Items	Scale	Source	Informants	Level of Analysis
8	Individual Demographics	Age, gender, organizational tenure, branch tenure, position, pay level, workplace (branch) and previous work experience.	8	Categories	Previous studies in HR-performance, organizational commitment and OCB	Staff	n/a
9	Branch Demographics	Branch size and previous year branch performance	3	Categories	Previous studies in HR-performance in the banking industry	HR Contact	n/a



## **Appendix 3-2**

### **Measures Question Items**

#### **Perceived Level of HR Practices (23 items; 7-point Scale)**

1. I have clear paths within the organization.
2. I have very little future within this organization (R).
3. I can expect to stay in the organization for as long as I wish.
4. I have more than one potential position I could be promoted to.
5. Extensive training programs are provided for me.
6. I am allowed to make many decisions.
7. I am often asked by the branch manager to participate in decisions.
8. If the bank were facing economic problems, employees in this job would be the last to get cut.
9. My job description contains all of the duties required for my role.
10. My performance appraisals are based on objective, quantifiable results.
11. My career aspirations within the bank are known by the branch manager.
12. There are formal training programmes to teach new hires the skills they need to perform their jobs.
13. I have an up-to-date job description.
14. Formal training programmes are offered to me in order to increase my promotability in the bank.
15. Superiors keep open communications with employees in this job.
16. I am provided the opportunity to suggest improvements in the way things are done.
17. It is very difficult to dismiss an employee in this job.
18. I normally go through training programmes regularly.
19. My duties are clearly defined.
20. My job security is almost guaranteed to me.
21. My performance is more often measured with objective quantifiable results.
22. The actual job duties are shaped more by the employee than by a specific job description (R).
23. I receive bonuses based on the profit of the bank.

## **Perceived Organizational Obligation of HR Practices - Reworded**

**(23 items; 7-point Scale)**

1. The bank is obliged to provide me with clear career paths within the organization.
2. The bank is obliged to provide me with a good future within the organization.
3. The bank is obliged to provide me with employment in the organization for as long as I wish.
4. The bank is obliged to provide me with more than one potential position to which I could be promoted.
5. The bank is obliged to provide me with extensive training programs.
6. The bank is obliged to allow me the discretion to make many decisions.
7. The bank is obliged to provide me with the opportunity to participate in decisions.
8. The bank is obliged to give me the assurance that if it were facing economic problems, employees in this job would be the last to get cut.
9. The bank is obliged to provide me with a job description that contains all of the duties required for my role.
10. The bank is obliged to provide me with performance appraisal systems which are based on objective, quantifiable results.
11. The branch manager is obliged to know my career aspirations within the bank.
12. The bank is obliged to provide new hires training programmes which provide them with the skills they need to perform their jobs.
13. The bank is obliged to provide me with an up-to-date job description.
14. The bank is obliged to provide me with formal training programmes so as to increase my promotability in the bank.
15. The bank is obliged to have open communications with employees in this job.
16. The bank is obliged to provide me with the opportunity to suggest improvements in the ways things are done.
17. The bank is obliged to keep an employee in this job as far as is possible.
18. The bank is obliged to provide me with opportunity to go through training programmes regularly.
19. The bank is obliged to provide me with clearly defined duties.
20. The bank is obliged to provide me with guaranteed job security.
21. The bank is obliged to measure my performance in ways that provide objective quantifiable results.
22. The bank is obliged to provide me with specific job description and not to let me shape my own actual job duties.
23. The bank is obliged to provide me with bonuses based on profit of the bank.

**Affective Organizational Commitment (6 items; 7-point Scale)**

1. I would be very happy to spend the rest of my career with this organization.
2. I really feel as if this organization's problems are my own.
3. I do not feel a strong sense of 'belonging' to my organization (R).
4. I do not feel 'emotionally attached' to this organization (R).
5. I do not feel like 'part of the family' at my organization. (R).
6. This organization has a great deal of personal meaning for me.

**Perceived Organizational Support (9 items: 7-point scale)**

1. Management shows very little concern for me (reversed).
2. Management cares about my general satisfaction at work.
3. Management really cares about my well-being.
4. Management strongly considers my goals and values.
5. Management strongly cares about my opinions.
6. Even if I did the best possible, management would fail to notice (reversed).
7. Management takes pride in my accomplishments at work.
8. Management is willing to extend itself in order to help me perform my job to the best of my ability.
9. Help is available from management when I have a problem.

**Leader-Member Exchange (7 items: 7-point scale)**

1. I usually know where I stand with my manager.
2. My manager has enough confidence in me that he/she would defend and justify my decisions if I was not present to do so.
3. My working relationship with my manager is effective.
4. My manager understands my problems and needs.
5. I can count on my manager to 'bail me out,' even at his or her own expense, when I really need it.
6. My manager realizes my potential.
7. Regardless of how much power my manager has built into his or her position, my manager would be personally inclined to use his/her power to help me solve problems in my work.

## **Organizational Citizenship Behaviours (16 items; 5-point Scale)**

### **A) Service Loyalty (5 items)**

1. My co-workers tell outsiders this is a good place to work.
2. My co-workers say good things about organization to others.
3. My co-workers generate favourable goodwill for the company.
4. My co-workers encourage friends and family to use firm's products and services.
5. My co-workers actively promote the firm's products and services.

### **B) Conscientious Service Delivery (6 items)**

6. My co-workers follow customer service guidelines with extreme care.
7. My co-workers conscientiously follow guidelines for customer promotions.
8. My co-workers follow up in a timely manner to customer requests and problems.
9. My co-workers perform duties with unusually few mistakes.
10. My co-workers always have a positive attitude at work.
11. Regardless of circumstances, my co-workers are exceptionally courteous and respectful to customers.

### **C) Service Participation (5 items)**

12. My co-workers encourage co-workers to contribute ideas and suggestions for service improvement.
13. My co-workers contribute many ideas for customer promotions and communications.
14. My co-workers make constructive suggestions for service improvement.
15. My co-workers frequently present to others creative solutions to customer problems.
16. My co-workers take home brochures to read up on products and services.

### **Individual Demographics (7 items)**

1. Gender
2. Age
3. Position
4. Pay level
5. Previous work experience
6. Organizational tenure
7. Branch tenure

## Appendix 4-1

### Respondents Profile, Branch Characteristics and Coding Frame

**Table A: Respondents Profile and Coding Frame**

<b>Demographic Group</b>	<b>Coding</b>	<b>Frequency</b>	<b>Percent</b>
<b>Gender</b>	0 = Male	337	27
	1 = Female	929	73
<b>Age</b>	1 = 21-25	149	12
	2 = 26-30	286	23
	3 = 31-35	148	12
	4 = 36-40	359	28
	5 = 41-45	231	18
	6 = 46-50	71	5
	7 = >=50	20	2
<b>Position</b>	1 = Teller	347	28
	2 = Customer Service Rep.	374	30
	3 = Lending Officer	133	11
	4 = Service Support Officer	164	13
	5 = Business Dev. Executive	56	5
	6 = Senior Operations Support	157	13
<b>Pay level</b>	1 = Grade 1	223	18
	2 = Grade 2	205	17
	3 = Grade 3	110	9
	4 = Grade 4	412	33
	5 = Grade 5	193	16
	6 = Grade 6	92	7
	7 = Grade 7	5	0
<b>Organization tenure</b>	1 = < 1 yr.	111	9
	2 = 1.1-3 yrs.	217	17
	3 = 3.1-5 yrs.	142	11
	4 = 5.1-7 yrs.	22	2
	5 = 7.1-10 yrs.	23	2
	6 = 10.1-15 yrs.	492	40
	7 = > 15 yrs.	243	19
<b>Branch tenure</b>	1 = <= 1 yr.	319	26
	2 = 1.1-3 yrs.	511	41
	3 = 3.1-5 yrs.	243	19
	4 = 5.1-7 yrs.	53	4
	5 = 7.1-10 yrs.	27	2
	6 = 10.1-15 yrs.	78	6
	7 = > 15 yrs.	19	2
<b>Having work experiences before joining the bank</b>	0 = Yes	550	63
	1 = No	327	37

**Table B: Branch Characteristics and Coding Frame**

<b>Branch Characteristics</b>	<b>Coding</b>	<b>Frequency</b>	<b>Percent</b>
<b>Branch Size</b>	1 = Small (up to 5 staffs)	6	4
	2 = Medium (6-10 staffs)	114	76
	3 = Large (more than 10 staffs)	29	20
<b>Previous Year Branch Performance (2008) (Sales achievement against target)</b>	1 = <= 70% achievement	13	9
	2 = 71% – 80%	17	11
	3 = 81% – 90%	29	20
	4 = 91% – 100%	54	36
	5 = more than 100%	35	24
<b>Questionnaire Response Rate by Branch</b>	1 = less than 70%	24	16
	2 = 60% – 69%	34	23
	3 = 70% – 79%	50	34
	4 = more than 80%	41	27

## Appendix 4-2

### Path Estimates of the Measurement and Structural Model The Individual Level Analysis

Model 12			Estimate	S.E.	Std. Estimate	P
POS	<---	A'	-.250	.054	-.420	***
POS	<---	M'	-.126	.056	-.229	.025
POS	<---	O'	-.043	.046	-.064	.344
POS	<---	A	.346	.076	.467	***
POS	<---	M	.347	.076	.521	***
POS	<---	O	.097	.063	.106	.122
POS	<---	LMX	.118	.025	.133	***
AOC	<---	A'	.000		.000	
AOC	<---	M'	.000		.000	
AOC	<---	O'	.000		.000	
AOC	<---	A	.047	.057	.073	.416
AOC	<---	M	.171	.047	.297	***
AOC	<---	O	-.058	.040	-.073	.153
AOC	<---	POS	.270	.029	.314	***
AOC	<---	LMX	.092	.024	.121	***
T1	<---	A'	1.000		1.000	
T2	<---	A'	.970	.032	1.000	***
T3	<---	A'	1.130	.032	1.000	***
T4	<---	A'	1.009	.033	1.000	***
R1	<---	A'	.989	.033	1.000	***
R2	<---	A'	1.040	.033	1.000	***
R3	<---	A'	1.003	.031	1.000	***
Ap1	<---	M'	.921	.033	1.000	***
Ap2	<---	M'	.846	.031	1.000	***
Psh	<---	M'	1.012	.036	1.000	***
JSc1	<---	M'	.833	.035	1.000	***
JSc2	<---	M'	.933	.036	1.000	***
JSc3	<---	M'	1.045	.035	1.000	***
JSc4	<---	M'	1.000		1.000	
P1	<---	O'	1.000		1.000	
P2	<---	O'	1.016	.034	1.000	***
P3	<---	O'	1.165	.037	1.000	***
P4	<---	O'	1.165	.037	1.000	***
ObTrn1	<---	T1	.500		.744	
HRTTrn1	<---	T1	-.500		-.682	
ObTrn2	<---	T2	.500		.754	
HRTTrn2	<---	T2	-.500		-.628	
ObTrn3	<---	T3	.500		.848	
HRTTrn3	<---	T3	-.500		-.823	



Model 12			Estimate	S.E.	Std. Estimate	P
ObTrn4	<---	T4	.500		.743	
HRTTrn4	<---	T4	-.500		-.727	
ObRc1	<---	R1	.500		.746	
HRRc1	<---	R1	-.500		-.697	
ObRc2	<---	R2	.500		.768	
HRRc2	<---	R2	-.500		-.770	
ObRc3	<---	R3	.500		.802	
HRRc3	<---	R3	-.500		-.706	
ObApp1	<---	Ap1	.500		.704	
HRApp1	<---	Ap1	-.500		-.705	
ObApp2	<---	Ap2	.500		.689	
HRApp2	<---	Ap2	-.500		-.616	
ObProf	<---	Psh	.500		.707	
HRProf	<---	Psh	-.500		-.628	
ObJScr1	<---	JSc1	.500		.599	
HRJScr1	<---	JSc1	-.500		-.558	
ObJScr2	<---	JSc2	.500		.645	
HRJScr2	<---	JSc2	-.500		-.586	
ObJScr3	<---	JSc3	.500		.725	
HRJScr3	<---	JSc3	-.500		-.717	
ObJScr4	<---	JSc4	.500		.783	
HRJScr4	<---	JSc4	-.500		-.715	
ObP1	<---	P1	.500		.718	
HRP1	<---	P1	-.500		-.723	
ObP2	<---	P2	.500		.754	
HRP2	<---	P2	-.500		-.704	
ObP3	<---	P3	.500		.858	
HRP3	<---	P3	-.500		-.811	
HRP4	<---	P4	.500		.851	
HRP4	<---	P4	-.500		-.840	
HRTTrn1	<---	A	1.000		1.093	
HRTTrn2	<---	A	1.042	.033	1.081	***
HRTTrn3	<---	A	1.127	.030	1.315	***
HRTTrn4	<---	A	.995	.031	1.149	***
HRRc1	<---	A	.993	.032	1.121	***
HRRc2	<---	A	1.029	.031	1.221	***
HRRc3	<---	A	1.039	.031	1.171	***
HRApp1	<---	M	.912	.030	1.155	***
HRApp2	<---	M	.828	.030	.997	***
HRProf	<---	M	.956	.034	.982	***
HRJScr1	<---	M	.818	.032	.908	***
HRJScr2	<---	M	.928	.034	.966	***
HRJScr3	<---	M	1.058	.032	1.201	***

Model 12			Estimate	S.E.	Std. Estimate	P
HRJScr4	<---	M	1.000		1.184	
HRP1	<---	O	1.000		1.078	
HRP2	<---	O	1.045	.035	1.078	***
HRP3	<---	O	1.162	.037	1.205	***
HRP4	<---	O	1.192	.037	1.281	***
AOC1	<---	AOC	1.000		.787	
AOC2	<---	AOC	.677	.040	.520	***
AOC3	<---	AOC	.861	.031	.770	***
AOC4	<---	AOC	.725	.041	.540	***
AOC5	<---	AOC	.715	.034	.607	***
AOC6	<---	AOC	.895	.043	.634	***
POS1	<---	POS	1.000		.867	
POS2	<---	POS	1.091	.022	.917	***
POS3	<---	POS	1.119	.023	.918	***
POS4	<---	POS	1.076	.023	.909	***
POS5	<---	POS	1.056	.024	.881	***
POS6	<---	POS	.835	.025	.755	***
POS7	<---	POS	.875	.026	.750	***
POS8	<---	POS	.939	.026	.789	***
LMX1	<---	LMX	.753	.022	.765	***
LMX2	<---	LMX	.940	.020	.883	***
LMX3	<---	LMX	.843	.020	.853	***
LMX4	<---	LMX	.920	.019	.908	***
LMX5	<---	LMX	.973	.023	.840	***
LMX6	<---	LMX	.815	.018	.869	***
LMX7	<---	LMX	1.000		.884	

## Appendix 5-1

### Intraclass Correlation Coefficients Calculations

The following table shows one way random effects analysis of variance (ANOVA) factored by group membership (branch).

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
Mean_AOC	Between Groups	293.649	148	1.984	2.465	.000
	Within Groups	701.131	871	.805		
	Total	994.781	1019			
Mean_OCB_Loyalty	Between Groups	125.288	148	.847	1.891	.000
	Within Groups	391.607	875	.448		
	Total	516.895	1023			
Mean_OCB_SvDel	Between Groups	99.486	148	.672	1.727	.000
	Within Groups	340.674	875	.389		
	Total	440.160	1023			
Mean_OCB_Part	Between Groups	115.365	148	.779	1.680	.000
	Within Groups	405.580	874	.464		
	Total	520.945	1022			

According to Bliese (1998), the formula for the ICC-(1) and ICC-(2) are

$$\text{ICC-(1)} = (\text{MSB} - \text{MSW}) / \text{MSB} + [(k-1) * \text{MSW}].$$

$$\text{ICC-(2)} = (\text{MSB} - \text{MSW}) / \text{MSB},$$

where MSB is Mean Square Between groups, MSW is Mean Square Within groups, and k is average group size.

#### 1.1 ICC-(1) and ICC-(2) value calculations for organizational commitment

$$\begin{aligned} \text{ICC-(1)} &= (1.984 - .805) / 1.984 + [(7.28 - 1) * .805] \\ &= 1.179 / 7.039 \\ &= 0.167 \end{aligned}$$

$$\begin{aligned} \text{ICC-(2)} &= (1.984 - .805) / 1.984 \\ &= 1.179 / 1.984 \\ &= 0.594 \end{aligned}$$

## **1.2 ICC-(1) and ICC-(2) value calculations for OCB-service loyalty**

$$\begin{aligned}\text{ICC-(1)} &= (.847 - .448) / .847 + [(7.28 - 1) * .448] \\ &= .399 / 3.660 \\ &= 0.109 \\ \text{ICC-(2)} &= (.847 - .448) / .847 \\ &= .399 / .847 \\ &= 0.471\end{aligned}$$

## **1.3 ICC-(1) and ICC-(2) value calculations for OCB-conscientious service delivery**

$$\begin{aligned}\text{ICC-(1)} &= (.672 - .389) / .672 + [(7.28 - 1) * .389] \\ &= .283 / 3.115 \\ &= 0.091 \\ \text{ICC-(2)} &= (.672 - .389) / .389 \\ &= .283 / .389 \\ &= 0.727\end{aligned}$$

## **1.4 ICC-(1) and ICC-(2) value calculations for OCB-service participation**

$$\begin{aligned}\text{ICC-(1)} &= (.779 - .464) / .779 + [(7.28 - 1) * .464] \\ &= .315 / 3.692 \\ &= 0.085 \\ \text{ICC-(2)} &= (.779 - .464) / .464 \\ &= .315 / .464 \\ &= 0.679\end{aligned}$$

## Appendix 5-2

### Path Estimates of the Measurement and Structural Model The Unit Level Analysis

The Full Mediation Model (Model 5)			Estimate	S.E.	Std. Estimate	P
OCB	<---	AOC	.447	.064	.681	***
Branch Performance	<---	OCB	.218	.105	.323	.037
Branch Performance	<---	AOC	.000		.000	
Loyalty	<---	OCB	.991	.102	.897	***
Participation	<---	OCB	1.000		.894	
Delivery	<---	OCB	1.111	.098	.988	***
Loy_5	<---	Loyalty	1.000		.807	
Loy_4	<---	Loyalty	1.021	.094	.798	***
Loy_3	<---	Loyalty	1.119	.094	.848	***
Loy_2	<---	Loyalty	1.063	.103	.764	***
Loy_1	<---	Loyalty	1.039	.110	.716	***
Parti_1	<---	Participation	1.000		.857	
Parti_2	<---	Participation	1.002	.072	.860	***
Parti_3	<---	Participation	1.058	.064	.935	***
Parti_4	<---	Participation	1.052	.069	.898	***
Parti_5	<---	Participation	.933	.096	.685	***
Del_1	<---	Delivery	1.000		.870	
Del_2	<---	Delivery	.940	.072	.824	***
Del_3	<---	Delivery	1.046	.082	.815	***
Del_4	<---	Delivery	.859	.080	.733	***
Del_5	<---	Delivery	1.007	.078	.821	***
Del_6	<---	Delivery	.667	.073	.654	***
AOC_5	<---	AOC	1.000		.738	
AOC_4	<---	AOC	1.004	.120	.700	***
AOC_3	<---	AOC	1.220	.119	.851	***
AOC_2	<---	AOC	.935	.121	.649	***
AOC_1	<---	AOC	1.341	.129	.860	***
AOC_6	<---	AOC	1.098	.126	.728	***
Mortgage	<---	Branch Performance	7.916	3.573	.361	.027
Personal Loan	<---	Branch Performance	20.586	4.269	.653	.011
SME Loan	<---	Branch Performance	10.569	8.072	.534	.013
Fee-based income	<---	Branch Performance	17.501	6.841	.678	.011
Deposit	<---	Branch Performance	1.000		.265	
AOC	<---	Diversity	-1.005	.563	-.153	.074